

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of Laclede Gas Company's )  
Purchased Gas Adjustment (PGA) to be ) **Case No. GR-2005-0203**  
Audited in its 2004-2005 Actual Cost )  
Adjustment )

**RESPONSE TO STAFF RECOMMENDATIONS**

COMES NOW Laclede Gas Company (hereinafter "Laclede" or "Company") and, pursuant to the Commission's January 30, 2007 procedural order in this case, submits its Response to Staff Recommendations. In support thereof, Laclede states as follows:

**I. Introduction**

On December 28 2006, the Staff of the Missouri Public Service Commission (hereinafter the "Staff") submitted its Memorandum and Recommendation in Case No. GR-2005-0203 for the Company's 2004-2005 Actual Cost Adjustment ("ACA") period. In its filing, the Staff makes a number of recommendations, together with some analysis and comment. This Response addresses only those items expressly recommended by the Staff and certain comments related thereto. It should be noted that Laclede does not necessarily agree with, or acquiesce in, other comments in the Recommendation not specifically addressed in this Response.

**II. Staff's Proposed Adjustment Relating to Swing Supply Demand Charges Should be Rejected**

In its Recommendation, the Staff proposes to disallow approximately \$5.5 million in demand charges paid by Laclede during the ACA period to obtain first of the month

(“FOM”) pricing on its swing supplies on the apparent grounds that such charges were imprudently incurred. (*See* Recommendation No. 4, page 13, and pages 4-5 of Staff’s Memorandum). As the Staff notes at page 4 of its Memorandum, this disallowance is based on the same concerns that prompted Staff to propose a disallowance of certain swing supply demand charges in Laclede’s prior ACA proceeding (Case No. GR-2004-0273). Since that prior disallowance is currently being litigated before the Commission, Staff recommends that this issue be held in abeyance pending a decision on the similar issue in Case No. GR-2004-0273.

Laclede submits that the only proper and permissible course of action in both this case, as well as in Case No. GR-2004-0273, is for the Commission to find that Staff’s proposed disallowance is affirmatively barred by the explicit terms of the agreement that the Staff signed, and the Commission approved, in Laclede’s 2002 general rate case proceeding, Case No. GR-2002-356. As a result of the record recently established in Case No. GR-2004-0273, it is now clear that Staff’s proposed disallowance of these demand charges has nothing whatsoever to do with whether Laclede acted in a prudent manner when it continued its long-standing practice of paying demand charges in order to obtain the right to purchase its swing supplies at FOM prices. To the contrary, the evidence in that case shows that this practice has been one of the most cost-effective hedging tools that Laclede has ever employed in that it has benefited customers over the years not only by protecting them from intra-month gas price spikes (in full accord with the Commission’s stated preference for robust hedging programs), but also by generating off-system sales revenues that, with Staff’s eager endorsement, have been used to offset the Company’s base rates. That record also establishes that Staff’s efforts to impugn this

long-standing practice is based on a tissue of errors and outright misrepresentations, ranging from Staff's demonstrably false suggestion that such demand charges nearly doubled from one ACA period to the next (when, in fact, they went up by less than 30%), to Staff's claim that it is simply not possible (despite having done so in its own workpapers) to trace – and therefore recognize as an offsetting customer savings – the off-system sales revenues that have resulted from Laclede's use of this practice.

Perhaps most significantly, however, the record in Case No. GR-2004-0273 makes it unmistakably clear that the Staff has raised these implausible claims of imprudence for one reason and one reason only: as a subterfuge to obscure what is in reality an impermissible attempt by the Staff to renege on the agreement it voluntarily signed, and the Commission approved, in Case No. GR-2002-356. Under paragraph 12 of the Stipulation and Agreement approved in that case, Laclede agreed to impute \$3.8 million in net off-system sales and capacity release revenues as an offset to its base rates. (*See Exhibit A hereto which contains the relevant portions of that agreement*). By doing so, Laclede essentially guaranteed its customers that they would receive that financial benefit year in and year out regardless of whether Laclede was actually able to achieve that level of revenues. In exchange for doing so, the Stipulation and Agreement explicitly stated that “the Company shall be permitted to retain 100% of any revenues realized from such transactions during the period the rates established in this proceeding are in effect. It is expressly understood that during such period no other treatment of such revenues shall be implemented as the result of any action taken in another Commission case, except upon mutual recommendation of the Parties and approval of the Commission.” (*Id.*).

It should be noted that this concept of imputing a guaranteed level of net off-system sales revenues in base rates in exchange for the right to retain any net revenues that the Company might achieve between rate cases did not originate with Laclede. To the contrary, it was a concept that had initially been advocated by the Office of the Public Counsel, with Staff's concurrence, in Laclede's 2001 rate case proceeding as an alternative to the Company's proposal that such revenues continue to be reflected in Laclede's Purchased Gas Adjustment as part of the Company's Gas Supply Incentive Mechanism. (See *Re: Laclede Gas Co.*, Case No. GT-99-303, *Report and Order*, 8 Mo. P.S.C. 322, 326-27, (September 9, 1999). Nevertheless, once the Commission determined, over Laclede's objection in that case, that such an approach was appropriate, Laclede negotiated in good faith to establish the basic terms and conditions that would implement this concept in its subsequent 2002 rate case proceeding. Thus was paragraph 12 of the Stipulation and Agreement in that case born.

It is now apparent that having received the benefit of the bargain it struck in 2002 in the form of lower base rates, the Staff is now seeking to renege on its obligation not to propose any adjustment or take any other action that would deprive Laclede of its right to retain the benefit of the off-system sales revenue achieved by the Company between rate cases, including the revenues achieved during the ACA period under consideration in this case. In computing what those off-system sales revenues are it has always been recognized that the gas supply demand charges required to make such sales are to be borne by the Company's ratepayers and recovered through the PGA/ACA process. Indeed, this concept has also been consistently reflected in the Company's tariff sheets applicable to off-system sales which, in calculating what those revenues are, assume that

any demand charges required to make such sales are being recovered through the PGA/ACA. And that is the exact custom and practice that has been consistently followed by Laclede and the Staff over the years in computing such revenues in multiple ACA and general rate case proceedings.<sup>1</sup> By disallowing the demand charges associated with the off-system sales made by the Company made during this period, the Staff is undeniably seeking to decrease the revenues that Laclede had an unqualified right to retain under paragraph 12 of the 2002 Stipulation and Agreement and, in the process, retroactively alter the fundamental components of an agreement that it voluntarily entered into with eyes wide open in 2002.

Even worse, the Staff has attempted to justify this impermissible effort to re-trade its agreement by repeatedly urging the Commission to take a pejorative view of the fact that Laclede did exactly what it was entitled, and even encouraged, to do under the paragraph 12 of the Stipulation and Agreement: namely, make an increasingly greater level of off-system sales. Staff's distaste for the Company's success in this regard was not, of course, so strong that the Staff was dissuaded from once again capturing the benefits of these efforts for the Company's customer through an even higher imputation of off-system sales in Laclede's 2005 rate case proceeding. Having captured that benefit as well, however, the Staff is knocking at the door yet again with its obviously bogus prudence claims in this proceeding and Case No. GR-2004-0273.

---

<sup>1</sup>In fact, the Staff has acknowledged from the very beginning that in computing off-system sales the demand charges required to make them are to be recovered through the PGA/ACA process. Thus, in explaining why a level of off-system sales revenues should be included in the base rates established in the Company's 1999 general rate case proceeding, the Staff stated that such action was necessary because otherwise, "Laclede will retain 100% of the profits from the off-system sales transactions, even though the transactions are funded by the ratepayers through the transportation reservation and *gas supply demand charges* which the customers pay through the PGA/ACA process." **Re: Laclede Gas Company**, Case No. GR-99-315, *Report and Order*, 8 Mo. P.S.C. 436, 451 (December 14, 1999) *emphasis supplied*.

The Commission should not sanction this transparent effort to circumvent an agreement that was freely entered into by the Staff and endorsed as just and reasonable by the Commission itself. Paragraph 12 of the Stipulation and Agreement in Laclede's 2002 rate case said what it meant and meant what it said. Nor should Laclede be required to pursue multiple appeals or have to rely on the Supreme Court of Missouri to vindicate the meaning and effect of this agreement, as was the case in *State ex rel. Riverside Pipeline Company, L.P., Mid-Kansas Partnership and Missouri Gas Energy, Respondents v. Public Service Commission of the State of Missouri*, Case No. SC87495, Opinion Issued January 30, 2007. Instead, this Commission should discharge that duty by rejecting at the outset of this proceeding Staff's proposed adjustment relating to swing supply demand charges.

**III. The Commission Should Reject Staff's Proposed Adjustment Relating to a Purchase Agreement with Laclede Energy Resources.**

\*\*  
\_\_\_\_\_  
  
\_\_\_\_\_  
  
\_\_\_\_\_  
  
\_\_\_\_\_  
  
\_\_\_\_\_  
  
\_\_\_\_\_  
  
\_\_\_\_\_  
  
\_\_\_\_\_  
  
\_\_\_\_\_







---

---

---

---

---

---

\*\*

**IV. Response to Other Staff Recommendations**

Staff Recommendation No 2 on page 13 of its Memorandum addresses pipeline capacity planning, \*\*\_\_\_\_\_,\*\* and physical supply targets. Regarding pipeline capacity planning, the Company believes that it has already provided the Staff information sufficient to meet Staff’s requirements. More specifically, Laclede responded to supplemental data requests by Staff on this subject last fall, and hosted Staff members’ on-site review of relevant information, including maps and point details that show the system requirements in a peak day situation. With respect to \*\*\_\_\_\_\_\*\*  
\_\_\_\_\_, Laclede agrees to continue to provide the information that Staff has requested. With regard to specifying target dates for acquiring physical supply, as Staff knows, Laclede has worked for years under the same general time frame. In late summer, Laclede issues a request for bids, which launches the process that results in supply contracts. While the process generally follows the same pattern each year, there have been some exceptions necessary to respond to market conditions. Laclede shares Staff’s desire for reliability; however, Laclede believes the contracting process must remain flexible, and maintains that it would be unwise to force target dates onto this process.

Staff Recommendation No. 3 also on page 13 of its Memorandum addresses a cost/benefit analysis for FOM demand charges, analysis of baseload, combination and

swing supply volumes, interruptible service and documentation issues. Regarding the cost/benefit analysis, as Mr. Godat testified to in Case No. GR-2004-0273, the Company does not believe that the hindsight cost/benefit analysis proposed by Staff is a worthwhile effort to determine the value of FOM call options. As Mr. Godat explained, the FOM option is most beneficial when the weather is at least normal or colder than normal; as we all know, many of the recent winters have not only been warm but in fact much warmer than normal. As Mr. Godat further explained, the winter of 2002-03 was basically normal and it was very obvious to Laclede's Gas Supply Personnel administering the portfolio during that period that the FOM supplies provided a tremendous benefit to the customers. The exposure to Laclede's customers due to upward price volatility is continually changing as new highs in the daily market have been set over the last 5 years and as the supply-demand imbalance changes. Laclede is in the daily market on an ongoing basis and evaluates the market at the time that it contracts for its gas supplies through information obtained through the competitive RFP process and by evaluating the fundamental factors that will potentially affect the price volatility of the upcoming winter season. A formal cost-benefit analysis of prior years' data in times when the weather is warmer than normal will not provide the kind of information necessary to evaluate the effectiveness of FOM options on its physical supplies.

With respect to an analysis of baseload, combination and swing supply volumes, Staff has historically focused its attention on the winter months when Laclede's customers are most subject to variations in load due to weather driven demand. The company provides the details of its summer purchases to Staff each year in the ACA review process but it has not been the focus of attention since the demand is almost

constant on a daily basis due to the lack of the effects of changes in weather in the summer period. Laclede has assumed that Staff is comfortable with the summer contracting practices since they are fairly straight-forward and have not been the subject of specific communications between the parties. However, it appears that Staff is now raising questions about contractual levels in the summer months. Laclede has no objection to addressing summer contracting issues with Staff.

Regarding charges for gas used by interruptible customers during periods of interruption, Laclede agrees with Staff that pricing should be set to discourage such use. That is why Laclede increased the rates for gas used during periods of interruption to \$2 per therm, or \$20 per MMBtu. In light of the current environment of high prices and volatility, Laclede acknowledges Staff's point that daily market prices could exceed \$20 per MMBtu. Laclede agrees to consider a tariff change that will continue to discourage gas use by interruptible customers during periods of interruption.

With respect to documentation issues, Laclede believes that it already provides Staff the invoices, reconciliations, monthly gas supply summaries and other information necessary to meet Staff's requirements on these issues. As Staff is well aware from reviewing Laclede's gas supply contracts, Laclede buys gas at the pool level. Laclede provides a gas supply summary report to Staff for each day of the year that aligns Laclede's supply packages with the particular pooling areas on the upstream and downstream pipelines serving Laclede. Laclede also maintains a gas supply model that is used to monitor the status of contracts that have minimum purchase requirements and has discussed this model with Staff in conference calls.

In Recommendation No. 7, which appears at pages 13-14 of its Memorandum, the Staff requests that the Company respond to certain requests regarding hedging transactions. Laclede agrees to continue to provide hedging documentation to Staff in the same format that Staff has previously requested, as referenced in paragraph 7a, and in the time frame requested by Staff.

Regarding Recommendation No. 7b, as Staff is well aware, Laclede's Risk Management Strategy requires \*\* \_\_\_\_\_

\_\_\_\_\_\*\*

Laclede also will continue to provide the Staff access to the market-based information available to Laclede, which illustrates for Staff the market conditions at the time of hedging purchases. It is neither analytically useful nor administratively feasible to provide further detail, including a minute-by-minute view of why each hedge position is initiated.

Laclede agrees to the Staff's requests in Recommendation Nos. 7c and 7d. Laclede has previously provided written explanations of both of these issues in the past, but agrees to provide additional information in writing to further clarify these matters for Staff. Regarding Recommendation No. 7e, Laclede makes available to Staff a monthly and cumulative hedging report and agrees to continue to do so.

**WHEREFORE**, for the foregoing reasons, Laclede respectfully requests that the Commission reject Staff's proposed disallowances.

Respectfully submitted,

**/s/ Michael C. Pendergast**

Michael C. Pendergast, Mo. Bar #31763  
Vice President and Associate General Counsel  
Rick Zucker, Mo. Bar #49211  
Assistant General Counsel - Regulatory

Laclede Gas Company  
720 Olive Street, Room 1520  
St. Louis, MO 63101  
Telephone: (314) 342-0532  
Fax: (314) 421-1979  
Email: mpendergast@lacledegas.com  
rzucker@lacledegas.com

**CERTIFICATE OF SERVICE**

Rick Zucker hereby certifies that the foregoing pleading has been duly served upon the General Counsel of the Staff of the Public Service Commission and the Office of the Public Counsel by hand delivery, email, fax, or United States mail, postage prepaid, on this 16th day of February, 2007.

**/s/ Rick Zucker**

Rick Zucker

## **EXHIBIT A**

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

FILED  
AUG 20 2002

Missouri Public  
Service Commission

In the Matter of Laclede Gas )  
Company's Tariff to Revise Natural ) Case No. GR-2002-356  
Gas Rate Schedules. )

PARTIAL STIPULATION AND AGREEMENT

On January 25, 2002, Laclede Gas Company ("Laclede" or "Company") submitted to the Missouri Public Service Commission ("Commission") revised tariff sheets reflecting increased rates for gas service provided to customers in its Missouri service area. The proposed tariff sheets contained a requested effective date of February 25, 2002 and were designed to produce an annual increase of approximately 6.3 percent (\$36.092 million) in charges for gas service. In addition to the proposed tariff sheets, the Company also submitted its minimum filing requirements and prepared direct testimony in support of the requested rate increase.

By Order dated January 31, 2002, the Commission suspended the proposed tariff sheets and established a procedural schedule for interventions and evidentiary hearings. On March 19, 2002, the Commission issued its Order in which it established additional and revised procedural dates, adopted a test year and true-up procedures and granted various applications to intervene. Specifically, the Commission granted the applications to intervene filed by Union Electric Company d/b/a AmerenUE; the Missouri Energy Group (Barnes-Jewish Hospital, Emerson Electric Company, SSM HealthCare, and St. John's Mercy Health Care); Missouri Industrial Energy Consumers (Adam's Mark Hotels, Alcoa Foil Products, Anheuser-Busch Companies Inc., The Boeing Company, DaimlerChrysler, Ford Motor Company, General Motors Corporation, Hussmann

**Off-System Sales/Capacity Release Revenues** -

12. The rates recommended herein reflect an imputed level of revenue in the amount of Three Million Eight Hundred Thousand Dollars (\$3,800,000) for the release of pipeline capacity and off-system sales. In exchange for this imputation, the Company shall be permitted to retain 100% of any revenues realized from such transactions during the period the rates established in this proceeding are in effect. It is expressly understood that during such period no other treatment of such revenues shall be implemented as the result of any action taken in another Commission case, except upon mutual recommendation of the Parties and approval by the Commission. The Company also agrees to document and provide a rationale for any instance where it makes an off-system sale of gas that utilizes gas supplies with a commodity cost that is lower than the highest commodity cost of gas available and purchased by the Company for system supply on any pipeline on the day the sale is made. Consistent with its goal of maximizing the net revenues available from the release of pipeline capacity and the sale of gas off-system and subject to the following provision, the Company fully intends, in those instances where either an off-system sale or a release of capacity can practically be made on the same pipeline, to execute the transaction that will create the highest net margin or capacity release credit. For capacity that is available for one month or greater and is not backed up by gas supply, the Company shall provide documentation and an explanation to Staff and Public Counsel of the process it uses to select the transaction that will create the highest net margin or capacity release credit. The Company, Staff and Public Counsel further agree to meet within 90 days of the Commission's approval of this Stipulation and Agreement to discuss the nature and character of the Company's off-system sales



activities and attempt to reach a mutual understanding regarding the impact of such transactions. The Parties further agree that the Company's tariff relating to off-system sales shall be modified to incorporate by reference therein the terms of this Paragraph 12 of this Stipulation and Agreement. Attachment 2 to this Stipulation and Agreement, which is incorporated herein for all purposes, is a copy of the modified off-system sales tariff. In the event of a conflict between this Paragraph 12 of this Stipulation and Agreement and the Company's off-system sales tariff, Paragraph 12 of this Stipulation and Agreement will be controlling.

**Billing Determinants for Rate Design**

13. The Parties agree that an annual heating degree day level of 4,718 shall be used to calculate the billing determinants for all rate design purposes.

**Provision of Additional Information**

14. The Company agrees to cooperate with Staff, Public Counsel and other interested Parties in the development and completion of a water heating analysis and other information in accordance with the requirements set forth in Attachment 3, which is attached hereto and incorporated herein for all purposes. The Company also agrees to cooperate in the development and completion of new cost of service studies and data for its Commercial and Industrial General Service and Commercial and Industrial Seasonal Service rate schedules. The Company will meet with Staff, Public Counsel and other interested Parties within 90 days of the Commission's approval of this Stipulation and Agreement to discuss what type of studies and data would be useful for this purpose and to develop a timeframe for developing and providing such information. The Company also agrees to collect, and provide to Staff, Public Counsel and the industrial participants