

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

In the Matter of Laclede Gas Company's)
Purchased Gas Adjustment for 2006-2007) **Case No. GR-2008-0140**

RESPONSE TO STAFF RECOMMENDATIONS

COMES NOW Laclede Gas Company (hereinafter "Laclede" or "Company") and, pursuant to the Commission's February 4, 2009 procedural order in this case, submits its Response to Staff Recommendations. In support thereof, Laclede states as follows:

I. Introduction

On December 31, 2008, the Staff of the Missouri Public Service Commission (hereinafter the "Staff") submitted its Memorandum and Recommendation ("Memorandum") in Case No. GR-2008-0140 for the Company's 2006-2007 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 Memorandum not specifically addressed in this Response.

II. Response to Staff's Recommendations on Reliability Analysis and Gas Supply Planning.

A. Data Considered for Peak Day Capacity Planning

Staff has recommended changes to the Company's 2007/2008 Reliability Report regarding planning for the Sullivan area and the selection of January and February weather for planning purposes. As acknowledged by the Staff, Sullivan had previously

been covered by a separate agreement between Laclede and ProLiance, a supplier to the Sullivan area, and for that reason Sullivan's inclusion in the reliability report was unnecessary. For 2007/2008, Laclede's planning did include the Sullivan service area. With respect to weather, Laclede did not believe that January and February 2007 were cold enough to justify using them for peak day capacity planning. However, the St. Louis area did experience the kind of cold weather in February 2008 that warranted an update for the reliability report, and accordingly the weather for that month will be reflected in the 2008/2009 report.

B. Peak Day Capacity Planning for Firm Transportation Customers

The focus of the Reliability Report is having adequate gas supply to meet the Company's firm sales obligations in a 1935/1936 design weather pattern, including back-up supply for firm transportation customers. The focus of the Operating Plan is having adequate distribution capacity for a design day to deliver gas supply to all of the Company's customers, including basic transportation customers for whom the Company has no back-up supply obligation. Because of this different focus, the assumption used in the operating plan for gas that will be supplied by all transportation customers is irrelevant to the Company's determination in the reliability report of supplies needed to back-up its firm transportation customers. In its Reliability Report, the Company performs a regression analysis to calculate its total firm supply requirements, which includes requirements for meeting the maximum daily quantity (MDQ) of the firm transportation customers. To date, Laclede has not separated out firm transportation customers from the rest of its firm supply for this report, and sees no reason for doing so. Regardless, Staff's suggestion, which was first shared with the Company in the

Memorandum, that the Company has lined-up resources to enable it to meet 148% of its firm transportation customers' requirements, is erroneous.

C. Downstream Pipeline Capacity

Staff has asked that Laclede update its Reliability Report and Operating Plan to show (i) peak day requirements for specific service areas or city gates served by specific pipelines and on-system storage; and (ii) how the pipeline and storage resources are broken out to meet the requirements of each service area. Consistent with past practices, the Company will arrange to have Staff make an on-site visit to review distribution load studies. Likewise, Laclede will address going forward the issues of why winter capacity was released as non-recallable, why capacity that was kept was not released as non-recallable; and how the release of recallable capacity for school aggregation is considered in peak day capacity analysis. Finally, Laclede agrees to address how its Reliability Report and Operating Plan accurately reflect the increased capacity on MoGas.

D. Sullivan Area Upstream Pipeline Capacity

Laclede will produce documentation, or will refer Staff to documentation previously produced, establishing the reliability of the upstream capacity serving the Sullivan area.

E. Upstream Pipeline Capacity for Service Areas Other than Sullivan

The Company agrees to address whether tighter constraints are caused by a cold day in February or a cold day in March. The Company agrees to include the entire winter month capacity for Southern Star and MoGas. Laclede will address the capacity available on each of its pipelines. Laclede states that non-recallable capacity release for each pipeline is not considered in peak day planning. Laclede will consider design winter

constraints when listing storage and propane availability and deliverability, and the separation of propane and underground storage deliverability. Finally, the Company agrees to address the appropriateness of its reserve margin.

F. Charging Interruptible Customers for Gas Used during Periods of Interruption

As recited by Staff on page 7 of the Memorandum, Staff has previously recommended that Laclede revise its tariff to ensure that the price charged to Interruptible customers who take gas during interruption periods be high enough to discourage such behavior. Laclede viewed this recommendation as appropriate and agreed to revise its tariff accordingly. In early November 2008, the Company approached the Staff to discuss details of the tariff revision. The Staff instead requested that the Company not address this issue until its next rate case. Now the Staff has again made this recommendation, but has done so without suggesting that the tariff change be deferred to a future rate case. Nevertheless, Laclede will assume that the Staff's expectation as to timing has not changed, and will therefore defer implementation of this recommendation until the Company files its next rate case.

G. Target Dates for Physical Supply Volumes

Laclede acknowledges that Staff has raised this issue in the past. Laclede has consistently responded that it prefers that ** _____

_____ **

H. Updating Laclede's Base Load/Combination/Swing Study

Similar to Laclede's response in Section II.G above, Laclede does not believe it would be constructive to either ** _____

**

III. Bundled Sales Agreement between LER and LGC

Laclede opposes the Staff’s proposed disallowance of \$1,463,761 in this case for most, if not all, of the same reasons that Laclede opposes the proposed disallowances in the previous two ACA cases. In summary, Staff’s discussion of this point inaccurately represents the facts and ignores the law. For example, ** _____

_____ ** Indeed, Staff’s effort to paint this provision as something detrimental to Laclede’s utility customers is just another example of Staff’s reflexive distaste for affiliate transactions in general.

Regarding the law, Staff seeks to “determine the prudence” of the agreement in which LER sells gas to Laclede based on the price of gas purchased by LER for sale to Laclede. This standard has nothing to do with the fair market value principles set forth in the Commission’s affiliate transactions rules. Instead, the Staff simply invents a standard based on its own punitive notion of how affiliate transactions should be priced. The Staff’s basis for arriving at the amount of its proposed disallowance, ** _____
_____ ** is possibly even more arbitrary, in that it completely disregards actual market data for the location in question.

Staff’s disregard for the law can be summarized in one sentence from page 11 of its Memorandum. ** _____

_____ **

Thus, the fact that the pricing is market-based, a fact that brings the transaction into full compliance with the affiliate transactions rules, is of no consequence to Staff, which focuses instead on its own unauthorized criteria ** _____

_____ **

For its part, Laclede has offered or provided documentation evidencing the market pricing for these affiliate transactions. Notwithstanding the fact that ** _____ ** are irrelevant to the market price at the delivery point, Laclede has nevertheless provided Staff such information, which Staff will in all likelihood misuse.

IV. Affiliate Transactions and Fair Market Value

Staff recommends that this case remain open to continue the review of the affiliate practices and transactions between LER and LGC, including how fair market value “is determined and shared between LGC and LER.” For the reasons discussed above, this is not a serious or good faith recommendation. Laclede has expended its best efforts to focus Staff on fair market value, since this is the standard discussed in the Commission’s rules that govern affiliate transactions. Rather than leave the case open for some future review, if Staff would simply comply with the pricing standards in the Commission’s rules (i.e. the law), the parties could properly evaluate and resolve both the application of fair market value under the affiliate transactions rules and the transactions discussed in Section III above.

As an afterthought, Staff has thrown into this section a statement that ** _____
 _____ ** This issue is not associated with any action taken by the Company during the subject ACA period, but arose out of a call placed by the Company to Staff on December 5, 2008 ** _____

_____** Notwithstanding the fact that this matter is not relevant to the 2007/2008 ACA audit, the Company states that, **_____

_____**

V. Missouri Pipeline Company Charges

Laclede has placed MPC on notice that, based on the outcome of the pending appeal of the Commission’s decision, Laclede may assert a credit due for past purchases.

VI. Hedging

Laclede will also continue to cooperate with the Staff in making available information and documentation relating to its hedging activities, in response to Staff’s Recommendation No. 5 on pages 17 to 18 of its Memorandum, all of which has already been formally requested by the Staff in data requests it has recently submitted for the Company’s 2007/2008 ACA period. Consistent with the parties’ schedule for responding to these requests, by April 17, 2009, Laclede will make available certain hedging data in a revised format, as committed to by the Company on a prospective basis effective May 1, 2008.

Regarding Staff Recommendations 5a and 5b, Laclede would note that its Risk Management Strategy, which was designed to stabilize prices consistent with Commission’s Natural Gas Price Volatility Mitigation Rule (4 CSR 240-40.018), 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. Laclede does not believe, however, that it is either analytically useful, nor administratively feasible, to provide further detail, including a minute-by-minute view of why each hedge position is initiated.

Laclede will also continue to provide the information identified in Recommendation Nos. 5c and 5d. Regarding Recommendation No. 5e, Laclede will continue to make available to Staff a monthly and cumulative hedging report that includes the status of separate hedge targets on a prospective basis. Laclede will also endeavor to determine what kind of information and analysis, in addition to all of the hedging information already provided by the Company, would be responsive to Staff's Recommendation Nos. 5f and 5g.

WHEREFORE, for the foregoing reasons, Laclede respectfully requests that the Commission accept this Response and reject Staff's proposed disallowances.

Respectfully submitted,

/s/ Michael C. Pendergast

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CERTIFICATE OF SERVICE

Gerry Lynch 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 5th day of March, 2009.

/s/ GerryLynch

Gerry Lynch