

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

In the Matter of Laclede Gas Company's)
Purchased Gas Adjustment for 2007-2008) **Case No. GR-2008-0387**

RESPONSE TO STAFF STATUS REPORT

COMES NOW Laclede Gas Company (hereinafter "Laclede" or "Company") and, pursuant to the Commission's December 2, 2010 Order Directing Responses, submits its Response to Staff's December 1, 2010 Status Report (the "Status Report"), stating as follows:

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

A. Upstream Pipeline Capacity Analysis

1. CEGT Capacity for Peak Day

The issue raised by Staff is whether Laclede is double counting certain capacity. In the Status Report, Staff has provided tables and a diagram that clarify Staff's position. Laclede believes that the parties both understand the facts, and that Staff's objection to Laclede's capacity calculation is that Laclede is including in its calculation ** _____
_____** while Staff is excluding that capacity. Staff states on page 3 of the Status Report that it is ** _____
_____**

In response, Laclede states that its peak day planning assumes that all ** _____

Laclede does not believe it would be constructive to either update this study or try to pigeonhole in advance the relative amounts of baseload, combination and swing gas. Laclede cannot approach the RFP process with a preconceived intention of buying a certain amount of combination versus swing volumes. Instead, Laclede evaluates the state of the market each year by gauging the proposals made in the RFP process and applying its judgment to pursue the most cost effective combination of these products. The result of this approach is demonstrated in Staff's observation on page 9 of the Memorandum that contracted volumes of baseload, combination and swing gas diverged from Laclede's study. Hence, performing further baseload/combination/swing studies is not a useful exercise.

Staff has asserted that Laclede's practice of entering into supply agreements for baseload, combo and swing supplies based on its judgment to pursue the most cost effective combination of these products does not explain the prudence of those costs or volumes. Laclede respectfully disagrees. As stated in its original response, the Company understands the auditor's desire to have something more mechanical to review. However, Laclede's supply decisions are based on the relative advantages the Company discerns from the various RFP responses it receives based on market conditions prevailing at that particular time. There are too many variables to develop a practical formula in advance for acquiring these supplies. Rather, Laclede uses the RFP responses to enhance its understanding of current market conditions before responding. In essence, the formula sought by Staff is in the *approach* Laclede takes to the process; that is, issuing RFPs (as previously recommended by Staff) and then evaluating the responses with a goal of obtaining supplies that are both adequate and cost effective. Because the approach taken by Laclede is prudent (as are other approaches), unless the Company's execution is so egregiously poor as to be unreasonable, Staff has done its job and that

should end the inquiry. Having said all this, Laclede is not opposed to developing a study if the Company believes doing so would be reasonably useful.

In the Status Report, Staff also continues to seek an analysis of the volumes of baseload and swing needed to meet varying weather conditions. Laclede will look into such an analysis prior to issuing its 2011 RFP this summer and will share its results with Staff. Otherwise, Laclede believes that its method of handling RFP responses as described above continues to be an appropriate approach.

2. Target Dates for Physical Supply Volumes

Similar to deciding on the combination of supplies, Laclede has always approached the timing of acquisition of supply volumes on a flexible basis. Again, based on its reasonable judgment, Laclede may nail down gas contracts earlier in some years and later in others. Consistent with its view as auditors, Staff seeks to impose more structure on the process by recommending that Laclede designate target dates for acquiring supply.

Staff has raised this issue in the past, but this year, Staff added language to its Recommendation indicating that it is not looking for rigid targets, but that it believes some guidelines should be in place to assure reliability. In recognition of Staff's clarification and acknowledgment of the propriety of flexibility in this area, Laclede has reconsidered its position and will explore the feasibility of setting guidelines.

In its Status Report, Staff asks Laclede to make a specific time commitment to exploring the feasibility of setting guidelines. Laclede is in the process of adopting a flexible guideline and intends to share it with Staff on a confidential basis later this month.

3. Gas Purchases for On-System and GSC Schedule Documentation

On page 9 of its Recommendation, Staff indicated some immaterial differences in Laclede's assignment of gas between system customers versus off-system sales. The Company was not previously aware of these alleged immaterial differences, but stated its willingness to review Staff's data on this subject and address the matter. As stated in the Status report, Staff provided its workpaper to Laclede. Staff now seeks a response or a date when Laclede will respond. Laclede commits to providing a response to Staff by the end of January 2011. At the same time, Laclede will also provide a schedule to aid Staff in matching contract identification numbers to the corresponding contracts, as requested in the Status Report.

II. Hedging

A. Limited or Partial Hedging

As Laclede stated in its February 2010 Response to Staff Recommendation, Laclede and its customers are always exposed to upward price risk on gas purchases that are not subject to a hedge. While a complete hedge gives complete protection according to its terms, it is considerably more expensive for customers. A partial hedge is less expensive and correspondingly provides less than complete protection, according to its terms. Together, the complete and partial hedges provide a desired level of protection that reasonably balances exposure and costs in accordance with Laclede's Risk Management Strategy. Over the past several years, Laclede has provided Staff with information regarding its hedging program in a number of different forms, pursuant to Staff's requests. Laclede will continue to provide that information in connection with the annual ACA audits. As also stated in its February 2010 Response, Laclede is aware of

the effect of its hedges at various price scenarios. Independent of the Company's decisions to purchase various hedging instruments, the Company has in the past quantified the impact of alternative future pricing scenarios on the gains or losses related thereto. To the extent Laclede produces such an analyses in the future, it will be glad to share such analyses with the Staff in the relevant ACA proceeding.

The substantial expense of hedging triggers an issue that Laclede has previously raised with Staff and other parties at meetings regarding the PGA: accumulating a fund to finance hedging expenses. Since gas prices are currently at a relatively low level, there is an excellent opportunity at present to put aside hedging funds through a modest adder to PGA rates. Laclede is interested in continuing to pursue a discussion of this concept with the Staff.

WHEREFORE, Laclede respectfully requests that the Commission accept this Response and find that the issues raised by Staff in the Status Report have been satisfied.

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 14th day of January, 2011.

/s/ Gerry Lynch

Gerry Lynch