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August 9, 2002

FILED

AUG 0 9 2002

Missouri Public
Service Commission

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
200 Madison Street, Suite 100
P.O. Box 360
Jefferson City, Missouri 65102

RE: *Laclede Gas Company's Purchased Gas Adjustment Tariff Revisions*
Case Nos. GR-2001-387 and GR-2000-622.

Dear Mr. Roberts:

Enclosed for filing in the above-referenced matter is an original and eight (8) copies of (1) Motion For Protective Order, and (2) Response Of Laclede Gas Company To Staff Recommendation. Exhibit 1 to the Response contains Highly Confidential information, and has been filed under seal, pursuant to the Commission rules.

Copies of the foregoing have been hand-delivered or mailed this date to the Office of the Public Counsel and Dana K. Joyce, General Counsel. Thank you for your attention to this matter.

Sincerely,

James M. Fischer

James M. Fischer

/jr

Enclosures

cc: Office of the Public Counsel
Dana K. Joyce, General Counsel

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED

AUG 0 9 2002

Missouri Public
Service Commission

In the Matter of Laclede Gas Company's Purchased Gas Adjustment Tariff Revisions to be Reviewed in Its 2000-2001 Actual Cost Adjustment.	))))	Case No. GR-2001-387

In the Matter of Laclede Gas Company's Purchased Gas Adjustment Factors to be Reviewed in Its 1999-2000 Actual Cost Adjustment.	))))	Case No. GR-2000-622

<u>RESPONSE OF LACLEDE GAS COMPANY</u>
<u>TO STAFF RECOMMENDATION</u>

COMES NOW Laclede Gas Company ("Laclede" or "Company") and submits its Response to the Recommendation filed by the Staff of the Missouri Public Service Commission ("Staff") in the above-captioned proceedings on June 28, 2002 (the "Recommendation"). In support thereof, Laclede states as follows:

1. Staff's Recommendation followed its review of Laclede's 2000-2001 Actual Cost Adjustment ("ACA") Filing docketed as Case No. GR-2001-387. In this Response, Laclede will address two main topics: (i) Staff's proposal that the Company forfeit $4,872,997 that it earned under the Price Stabilization Program ("PSP") during 2000-01; and (ii) Staff's recommendations regarding its reliability analysis.

Price Stabilization Program

2. The PSP was a tariffed program that encouraged Laclede to reduce the impact of natural gas price volatility on the Company's customers. The PSP provided incentives for the Company to: (i) lower the effective price of gas through the purchase of call options (the "Price Protection Incentive"); and (ii) achieve savings through a reduction in the cost of the program either through favorable purchase prices or intermediate option sales (the "Overall Cost Reduction Incentive").

3. During the winter of 2000-2001, the Company saved approximately $28.5 million under the PSP. Of this amount, $11.5 million in gains was attributable to the Price Protection Incentive portion of the PSP. However, because Laclede opted out of participating in the Price Protection Incentive for 2000-2001, Laclede kept none of these gains, but instead flowed all of them through to its customers in an expedited manner. The remaining $17 million in savings was attributable to the Overall Cost Reduction Incentive portion of the PSP. Pursuant to the terms of the PSP tariff, Laclede's share of these savings was approximately $8.9 million, with the remainder again flowed through to Laclede's customers in their entirety. Of the $8.9 million Laclede was entitled to retain pursuant to these tariff provisions, Laclede volunteered to, and in fact did, contribute $4 million to supplement the funds available for option purchases under the 2001-2002 PSP in the event the Commission decided to continue the program for its third year.

4. Therefore, Laclede retained in total only about $4.9 million of the $28.5 million in gains and savings that it achieved for it and its customers during the 2000-2001

PSP period. It is this last $4.9 million in savings that the Staff seeks to take from the Company with its proposed adjustment in this proceeding.

5. As contemplated by the terms of the PSP tariff, Laclede earned the $17 million in cost savings under the Overall Cost Reduction Incentive through intermediate option liquidations (i.e., liquidations that took place prior to the last three days before an option would have expired). These savings were calculated in accordance with Sections G.4(b) and (c) on page 28-f of Laclede's tariff and the Price Stabilization Program Description (the "Program Description") referred to in paragraph G.1 on page 28-e of Laclede's tariff. Copies of the applicable tariff pages and Program Description are attached hereto as Exhibit 1.

6. The tariff and Program Description make it clear that under the Overall Cost Reduction Incentive, the Company and its customers are to share in any cost reductions achieved by the Company below the Maximum Recovery Amount ("MRA") as the result of intermediate option liquidations. During the ACA period in question, the Company achieved $17 million in gains as a result of such liquidations and it is this amount that, pursuant to the tariff and Program Description, the Company used to calculate its savings. This method, as discussed in both the tariff and the Program Description, is the only objective and permissible way to determine cost savings under the Overall Cost Reduction Incentive portion of the PSP tariff.

7. Nevertheless, in proposing its adjustment, Staff asserts that Laclede had no savings and should therefore relinquish the $4.9 million. Staff appears to have reached this conclusion by comparing the options proceeds Laclede achieved through

intermediate option liquidations against the hypothetical proceeds that it claims could have been achieved had Laclede held the options "till near expiration."

8. Although Staff claims that this is an objective standard for determining savings, it is neither objective nor permissible. To the contrary, Staff's standard is one that has been created out of whole cloth, long after these transactions took place based on an improper hindsight review of the results of those transactions. There is simply no support in the PSP tariff for Staff's method of determining cost savings.

9. Further, Staff's standard for measuring savings based on what the value of an option would have been "near expiration" is vague and indefinite, in addition to being contrary to the tariff. Laclede assumes that by using the term "near expiration," Staff means the value of an option during the last three trading days of that option. Such a standard, however, lacks clarity because it cannot be determined if the benchmark is the 3rd day before expiration, the 2nd day before expiration, the 1st day before expiration, or at expiration itself. This is another flaw in Staff's "objective" standard since it is possible that an option could have a significant swing during those days.

10. Finally, Staff's position ignores the fact that Laclede did hold some of its options till near expiration. By doing so, these options became part of the Price Protection Incentive in which Laclede did not participate. As stated above, these options netted gains of $11.5 million, all of which Laclede flowed through to its customers.

11. In making its recommendation, Staff does not consider the $11.5 million that Laclede earned solely for its customers through the Price Protection Incentive, nor does Staff consider the $4 million Laclede voluntarily contributed to the 2001-2002 PSP, nor the portion of the $17 million earned under the Overall Cost Reduction Incentive that

was also flowed through to customers. Instead, Staff considers only the $4.9 million retained by Laclede, and whether that amount can also be taken from the Company by comparing amounts achieved by Laclede to an arbitrary and unlawful standard.

12. In any event, if one were to look beyond the PSP tariff as Staff has proposed, and calculate savings in a manner different than that contemplated by the tariff, a more comprehensive and balanced calculation of the actual savings generated by the Company would not support Staff's proposed adjustment. To the contrary, such an assessment would show that Laclede's activities saved its customers far more than the amounts explicitly recognized under the Program. Accordingly, any attempt to modify the standard for calculating savings under the PSP should result not in a disallowance of $4.9 million as proposed by Staff, but instead in an increase in the amounts retained by Laclede. At a minimum, this additional amount should equal the $4 million in savings that Laclede achieved and voluntarily flowed through to its customers last year.

13. In summary, Laclede disputes Staff's position regarding how to evaluate the cost savings generated under the 2000-2001 PSP. Staff's standard is neither objective nor reasonable, and it conflicts with the tariff and Program Description. Laclede opposes the Staff's proposed adjustment to the ACA balance set forth on page 4 of its Recommendation. Laclede maintains that pursuant to the terms of the tariff and Program Description, the Company is entitled to retain the $4.9 million it earned under the 2000-2001 PSP.

Reliability Analysis

14. Most of the discussions and recommendations contained in Staff's reliability analysis on peak day capacity are similar to those made in GR-2000-622, and

filed by Staff on May 9, 2002. Correspondingly, Laclede will provide responses similar to those filed by the Company on May 31, 2002. Naturally, Laclede will also address new issues raised by Staff in its Recommendation.

15. **Recommendation 2a**. Laclede agrees to submit Reliability Reports for the 2001/2002 and 2002/2003 ACA periods.

16. **Recommendation 2b**. The Company has included the additional 1° slope value in its Reliability Analysis to reflect certain changes in the airport thermometer that have occurred since the 1935/1936 weather pattern was recorded. This adjustment permits a more accurate representation of what the Company's sendout requirements would be in the event the 1935/1936 weather pattern was repeated. Nevertheless, Laclede will reevaluate the additional 1° slope adjustment prior to planning for the 2002/2003 winter season and will provide documentation supporting its decision on the adjustment.

17. **Recommendation 2c**. Laclede agrees to evaluate whether the Normal Adjustment Factors ("NAF") from the 1990/1991 study are still appropriate. As in Case No. GR-2000-622, Laclede will attempt to evaluate the NAF by November 1, 2002, and will commit to either retaining such NAF or proposing an alternative by November 1, 2003. In response to Staff's request to propose an alternative NAF by April 1, 2003, Laclede has stated its willingness to meet a July 1, 2003 deadline. Although the Staff initially expressed concurrence with Laclede's July 1 proposal, Staff has since retracted its agreement and continues to insist on the April 1 deadline.

18. **Recommendation 2d**. Laclede agrees to document how load factors are derived for the sendout model covering the commercial-other, industrial-other and firm

transportation customer classes, starting with the 2002/2003 ACA period. To the extent available, Laclede also agrees to provide the 0° sendout and base sendout that we derived for these customer classes for the ACA periods from 1997/1998 to 2000/2001.

19. **Recommendation 2e**. Laclede is able to measure the exact peak daily usage requirements of its firm sales and firm transportation customers only in limited weather conditions when the Company is curtailing deliveries to its interruptible customers. This is because the Company does not have daily meter reading capability for its interruptible customers. For this reason, an accurate comparison of actual usage to estimated usage can only be accomplished in the above limited circumstances. As a consequence, the Company recommends limiting the summary to the five coldest days when the Company was curtailing its interruptible customers. Absent such a limitation, a like comparison cannot be made.

20. **Recommendation 2f**. Laclede agrees to provide updated capacity ratings for the Lange and Catalan propane facilities.

21. **Recommendation 2g**. Laclede agrees to provide an update on the capacity and utilization of the Lange underground storage facility.

22. **Recommendation 2h**. Laclede agrees to provide justification for the pipeline capacity used in the 2000/2001, 2001/2002, and 2002/2003 Reliability Reports.

23. **Recommendation 2i**. Laclede will provide a reserve margin estimate for the 2001/2002 and 2002/2003 ACA periods. The Company will provide a reserve margin estimate for the 2003/2004 ACA period when it submits its 2003/2004 Reliability Report.

24. **Recommendation 2j**. Laclede agrees with Staff's suggestion at pages 3-4 of its Recommendation that a -5° Fahrenheit be used for the February 18th date in the

Company's design winter analysis. Laclede will propose a reserve margin that it believes to be reasonable, and will provide a rationale for such proposal.

WHEREFORE, for all of the foregoing reasons, Laclede respectfully submits that the Commission should issue an order approving Laclede's 2000-2001 ACA filing without change, and approving other actions as set forth herein.

Respectfully submitted,

Michael C. Pendergast

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Certificate of Service

The undersigned certifies that a true and correct copy of the foregoing Response of Laclede Gas Company was served on the General Counsel of the Staff of the Missouri Public Service Commission and the Office of the Public Counsel on this 9th day of August, 2002 by hand-delivery or by placing a copy of such Response, postage prepaid, in the United States mail.

James M. Fischer

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