BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's Tariff)

Sheets Designed to Extend for an Additional) **Case No. GO-98-484**

Period the Experimental Price Stabilization)

Fund.)

REPORT AND ORDER

Issue Date: June 15, 1999

Effective Date: June 25, 1999

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's Tariff)

Sheets Designed to Extend for an Additional) **Case No. GO-98-484**

Period the Experimental Price Stabilization)

Fund.)

APPEARANCES

Michael C. Pendergast, Associate General Counsel, and **Thomas M. Byrne**, Associate Counsel, Laclede Gas Company, 720 Olive Street, Suite 1530, St. Louis, Missouri 63101, for Laclede Gas Company.

Douglas E. Micheel, Senior Public Counsel, Office of the Public Counsel, Post Office Box 7800, Jefferson City, Missouri 65102, for the Office of the Public Counsel and the public.

Thomas R. Schwarz, Jr., Deputy General Counsel, Missouri Public Service Commission, Post Office Box 360, Jefferson City, Missouri 65102, for the staff of the Missouri Public Service Commission.

REGULATORY LAW JUDGE: Vicky Ruth.

REPORT AND ORDER

Procedural History

The Commission initially approved Laclede Gas Company's (Laclede's) experimental Price Stabilization Program (PSP) as part of the 1997 Stipulation and Agreement approved in Case No. GO-97-401. The tariff approved in that case provides that the PSP shall be terminated July 31, 1998, unless otherwise ordered by the Commission. The PSP was proposed in order to reduce the impact of natural gas price volatility on Laclede's customers during the 1997/1998 winter season.

On April 28, 1998, Laclede Gas Company (Laclede) filed a tariff sheet designed to extend the experimental PSP for an additional term, an Application to Extend Experimental Price Stabilization Fund and Request for Prehearing Conference, and a Motion for Protective Order.

Staff filed a memorandum on May 20, 1998, in which it recommended approval of the tariff sheet extending the PSP, with modifications proposed by Laclede, and requested a prehearing conference to permit the parties to discuss other program changes proposed by Laclede. On May 26, 1998, the Commission issued an order approving the tariffs with the changes jointly recommended by the parties. The tariffs extended the program for an additional year, provided that the Price Stabilization Charge shall end with the effective date of the 1999 summer PGA filing, and determined that any ending balance in the fund be charged to or returned to ratepayers through the ACA factors established in the winter PGA filing.

Pursuant to the Commission's May 26, 1998, order, the parties met on June 11, 1998, and submitted a proposed procedural schedule on June 22, 1998, in order to litigate the remaining modifications proposed by Laclede but opposed by Staff. The Commission issued a procedural schedule on July 7, 1998, and, at the parties' request, modified it on July 22, 1998. Laclede submitted direct testimony on July 2, 1998. Staff submitted rebuttal testimony on July 30, 1998. Laclede filed surrebuttal testimony on August 5, 1998.

A hearing was held on August 10, 1998. The parties filed simultaneous initial briefs on September 25, 1998, and reply briefs were filed on October 3, 1998. OPC filed a letter on the same date indicating that it would not file a reply brief.

Pending Motion

On February 19, 1999, Laclede filed a request for an on-the-record presentation involving Case No. TO-98-484, the present case, and Case No. GT-99-303, In the Matter of the Laclede Gas Company's Tariff Sheets to Extend and Revise the Company's Gas Supply Incentive Plan. Laclede notes that it has developed and submitted two incentive proposals relating to the procurement and management of its gas supply assets. The first proposal is the subject of the present case, and it establishes an incentive Price Stabilization Program to replace Laclede's current hedging program. The second proposal pertains to Case No. GT-99-303 and seeks to extend and revise certain elements of Laclede's Gas Supply Incentive Plan (GSIP), which is scheduled to terminate on September 30, 1999 (hereinafter referred to as the GSIP II Proposal). The GSIP II Proposal was filed on January 14, 1999, and is currently scheduled to be heard in August 1999.

Laclede requests an on-the-record presentation to address these issues and asks that the Commission thereafter approve Laclede's Incentive Hedging Proposal. Staff filed a reply on March 5, 1999, indicating that it believes that the evidence in this case has been extensive and the parties' briefs adequately address the issues, and that an additional on-the-record presentation is unnecessary.

The Commission has reviewed Laclede's motion for an on-the-record presentation and the Staff's reply. The Commission appreciates both Laclede's willingness to provide the Commission with additional evidence and the patience of the parties; however, the Commission concludes that such a presentation is unnecessary in this case. The Commission addressed Laclede's request for an on-the-record presentation in Case No. GT-99-303 in an order issued April 13, 1999.

Discussion

As noted above, the objective of the current PSP is to mitigate the effects of sudden spikes in the price of natural gas. Laclede uses a common industry practice of pricing natural gas by reference to indices of spot market prices. The issue before the Commission is whether Laclede's request for modifications to the experimental PSP should be granted.

I. Laclede's Position

Laclede's proposal would allow it to trade in and out of financial instruments once a hedge position has been established. The parties disagree as to how Laclede should be permitted to acquire and use financial instruments for the winter of 1999/2000. Laclede's original proposal recommends that three major changes be made to the PSP. First, Laclede proposes to eliminate the program's existing restriction on when financial instruments may be sold and adopt an approach that gives Laclede greater flexibility to trade in and out of these instruments when market conditions warrant. This would allow Laclede to more effectively manage the volatility of the market. Laclede alleges that this will create opportunity to reduce the overall cost of acquiring price protection for Laclede and its ratepayers. Second, Laclede proposes to incorporate an "incentive feature" into its PSP. Laclede argues that in exchange for undertaking the risks inherent in guaranteeing price protection, it should have a corresponding opportunity to benefit from it if achieves positive results. Third, Laclede proposes a three-year term for the program. Laclede contends that the longer authorization period would provide the Commission with sufficient experience with the operation of the program under varying conditions and permit a fair assessment of its effectiveness, and that this would reduce the expense of the annual review which is costly to both the Commission and to Laclede.

Laclede also proposes to modify the tariff approved in Case No. GO-97-401 in order to clarify the procedures to be followed at the end of the experiment.

However, in response to concerns raised by Staff, Laclede made modifications to its original proposal, resulting in its Alternative B plan. Under the Alternative B plan, Laclede withdrew its request to use certain types of instruments and adjusted the percentage which Laclede would pay of the increased costs for the volumes which are required to be covered under the program, thus providing an absolute cap on the cost to the ratepayers of these volumes. In exchange for assuming this additional risk, the Alternative B plan increases the percentage of gains which Laclede would receive in specified instances. Laclede also indicates that it is willing to further modify its program to address certain concerns which were expressed by Commissioners at the hearing. For example, Laclede proposes to revise its method of calculating the TSP, and to adjust the sharing mechanism in the Overall Cost Reduction Incentive. In addition, Laclede offered to modify the proposal to give the Commission the right, but not the obligation, to review the program annually and, if necessary, revise it to correct any major deficiencies on or before February 15 of each year of the program.

II. Staff's Position

Staff argues that the current program provides substantial benefit to Laclede's ratepayers by potentially obtaining effective price protection from spikes in natural gas prices for the company's heating gas supply. Staff notes that the current program is funded by a surcharge on ratepayers, which Laclede uses to secure financial instruments as a hedge against high gas prices. The Staff emphasizes that although the current hedging program acknowledges the possibility of financial gain to ratepayers, the actual purpose of the program is the protection of ratepayers from high gas prices during the period of the customers' greatest consumption. Staff alleges that Laclede's proposal modifies the program objective to include the pursuit of financial gain, and that these modifications increase the potential risk to the ratepayers.

Staff notes that Laclede proposes to liquidate hedge positions when doing so would result in gain and rehedging at a later time. However, Staff argues that Laclede proposes to move from protection to speculation and that Laclede has not provided the Commission with adequate assurances that the ratepayers will be protected. A major flaw in Laclede's proposal, according to the Staff, is that it denies the speculative nature of the market which requires a loss to match every gain. Staff is particularly concerned that Laclede refuses to openly acknowledge the speculative aspects of its proposals and has failed to suggest discrete limits to ratepayer exposure in specific trading situations.

Staff also alleges that there is an incentive for Laclede to act in the interest of the shareholders at the expense of ratepayers, and that the plan imposes additional costs on ratepayers. Furthermore, the Staff states that there is an inability to terminate the plan if the results are unfavorable.

Staff argues that the record does not establish adequate details on critical elements of Laclede's plan. Staff contends that Laclede has indicated that the detailed analysis necessary to support this type of program does not exist. Staff alleges that it is unacceptable that Laclede failed to generate adequate documentation for the proposal. Staff targets several other problems with Laclede’s proposal, including Laclede’s provision that ratepayers bear all the transaction costs for the program.

III. Office of Public Counsel's Position

The Office of the Public Counsel (OPC) opposes Laclede’s proposal to modify its current PSP program. OPC argues that the current program is designed to provide price protection to Laclede’s ratepayers and that Laclede is attempting to modify it to a program that makes the purchasing of financial instruments another "profit center" for Laclede. OPC contends that Laclede’s new program is very complex and vague. OPC also argues that the new program allows Laclede to speculate with ratepayers’ money but it does not help Laclede achieve the program goal of providing price protection for its ratepayers.

Findings of Fact

The Missouri Public Service Commission, having considered all of the competent and substantial evidence upon the whole record, makes the following findings of fact. The positions and arguments of all of the parties have been considered by the Commission in making this decision. Failure to specifically address a piece of evidence, position or argument of any party does not indicate that the Commission has failed to consider relevant evidence, but indicates rather that the omitted material was not dispositive of this decision, or that specifics of the evidence are not discussed herein because of their designation as "Highly Confidential" material.

The Commission finds that Laclede's request to extend or modify the experimental PSP should be granted. The Commission will approve Laclede's Alternative B plan with the additional modifications Laclede agreed to during the hearing and in its posthearing briefs. These additional modifications include a provision regarding non-winter month transactions, how the TSP will be calculated in specific situations, adjustments to the sharing mechanism in the overall cost reduction, and a provision giving the Commission the right, but not the obligation, to review the program annually and, if necessary, revise it to correct any major deficiencies on or before February 15 of each year of the program.

In the interests of clarity, Laclede is directed to file a revised Price Stabilization Program which clearly embodies the modifications found in the Alternative B plan and includes the changes proposed by Laclede in its posthearing briefs. The Commission finds that the Alternative B plan with these additional modifications provides benefits to ratepayers regarding guaranteed catastrophic price protection and provides the potential for ratepayers to share in gains and cost savings, while also providing

Laclede a financial incentive to optimize price protection in a prudent manner.

Conclusions of Law

The Missouri Public Service Commission has arrived at the following conclusions of law.

Laclede is a regulated public utility over which the Commission has jurisdiction in accordance with Chapters 386 and 393, RSMo 1994.

Orders of the Commission must be based upon competent and substantial evidence on the record. § 536.140, RSMo 1994. Based upon the complete record, the Commission concludes that Laclede’s proposed modifications to the PSP are justified by substantial and competent evidence and shall be approved. Accordingly, the Commission shall approve Laclede's proposed modifications.

IT IS THEREFORE ORDERED:

1. That Laclede's application for modifications to the Price Stabilization Program, as amended by Alternative Plan B and the additional changes proposed in Laclede's posthearing briefs, is granted.

2. That the tariff filed by Laclede Gas Company on April 28, 1998, is rejected. However, Laclede Gas Company is directed to file a revised tariff sheet, and a new program description, incorporating the modifications approved in Ordered Paragraph 1, by June 30, 1999. The tariff rejected is as follows:

   P.S.C. Mo. No. 5 Consolidated

   First Revised Sheet No. 28-e Cancelling Original Sheet No. 28-e

3. That Staff shall file a report by July 12, 1999, which states whether Laclede Gas Company's new program description and tariff complies with this Report and Order.

4. That any pending motions or objections not specifically ruled on in this order are hereby denied or overruled.

5. That this Report and Order shall become effective on June 25, 1999.

BY THE COMMISSION

Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
(S E A L)
Crumpton, Drainer, and Murray,
CC., concur;
Lumpe, Ch., and Schemenauer, C.,
dissent, with separate dissenting
opinion;
certify compliance with the
provisions of Section 536.080,
RSMo 1994.
Dated at Jefferson City, Missouri,
on this 15th day of June, 1999.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's)
Tariff Sheets Designed to Extend for an) Case No. GO-98-484
Additional Period the Experimental Price)
Stabilization Fund.)

DISSENTING OPINION OF CHAIR SHEILA LUMPE AND COMMISSIONER ROBERT SCHEMENAUER

We respectfully disagree with the majority in case number GO-98-484. The Report and Order approved by the majority will allow Laclede Gas Company to modify the currently approved Experimental Price Stabilization Fund. The changes will permit Laclede to trade in and out of financial instruments once a hedge position has been established. Laclede argues that these changes will permit it to respond more efficiently to changes in the market to improve the position of both the company and its ratepayers. We fear that the changes will instead allow Laclede to speculate in the market while putting its ratepayers at risk.

The purpose of the Experimental Price Stabilization Fund is to permit Laclede to purchase and hold financial instruments in its efforts to reduce the volatility of its cost of natural gas. Laclede's ratepayers would thus be protected from the volatility of the natural gas market. The changes proposed by Laclede and approved by the majority will allow Laclede to stray from that basic objective by permitting Laclede to buy and sell financial instruments after establishing its hedge position, if it believes that it can make a profit by doing so. Thus the purpose of the Price Stabilization Fund is changed from protecting ratepayers from radical price fluctuations, to attempting to make a speculative profit for Laclede's shareholders through the trading of financial instruments. Laclede proposes to share a portion of these profits with its ratepayers, presupposing that there will be profits. In the meantime the ratepayers are endangered by the downside risks associated with the financial speculation proposed by Laclede.

For all its willingness to speculate with the money of the ratepayers, Laclede's proposal is remarkably short on details. Critical terms are ill-defined; critical processes are undescribed; insufficient evidence was presented to support the belief that Laclede's gas supply personnel are able to foretell natural gas market movements so as to ensure a profit. Laclede asks that its proposal be approved for a period of three years. But it does not provide any definite criteria to permit the termination of the program before that time if that becomes necessary. The ratepayers will bear all transaction costs while Laclede's shareholders will share in the benefits. The proposal does not contain adequate assurances of how ratepayers will be protected.

It seems that Laclede is asking the Commission to simply trust it to do the right thing, suggesting that its ratepayers will ultimately benefit from its financial dealings. Laclede's ratepayers are perfectly capable of speculating in the financial markets if they choose to do so. Those ratepayers do not, however, expect Laclede to use the ratepayers' money to engage in such speculation.

The majority would permit Laclede to speculate in the financial market to the possible detriment of its ratepayers. For that reason we dissent.

Respectfully submitted,

Sheila Lumpe, Chair

Robert Schemenauer, Commissioner

Dated at Jefferson City, Missouri
On this 15th day of June, 1999

without attachments

LACLEDE GAS COMPANY
720 OLIVE STREET
ST. LOUIS, MISSOURI 63101
(314) 342-0601

KENNETH J. NEISES
SENIOR VICE PRESIDENT
ENERGY & ADMINISTRATIVE SERVICES

June 1, 2000

FILED
JUN 2 2000
Missouri Public Service Commission

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
301 W. High Street
Jefferson City, MO 65101

RE: Case No. GO-2000-394; Notice Regarding Price Protection Incentive

Dear Mr. Roberts:

The above-referenced case was established by the Commission to monitor Laclede Gas Company's ("Laclede") revised Price Stabilization Program ("Revised PSP"), as approved by the Commission in its Report and Order dated June 15, 1999, in Case No. GO-98-484. Pursuant to the terms of the Revised PSP, the purpose of this letter is to notify the Commission that Laclede is exercising its right to declare the Price Protection Incentive component of the Program inoperable for the second year of the Program.

As contemplated by the Revised PSP, such action has been necessitated by radical changes in the market conditions governing natural gas prices in general and natural gas financial instruments in particular. Even before the second year of the Revised PSP commenced in March 2000, the cost of financial instruments had already increased to a point where the *targeted* price protection level established for this year was some 70 cents greater than the highest *catastrophic* price levels (i.e. $4.00 per MMBtu) established in prior years. Unfortunately, rather than decline, as most industry experts and observers were expecting, such costs have only continued to escalate to unprecedented levels, with the result that the cost to obtain even catastrophic price protection has more than tripled over the amount authorized for that purpose under the Revised PSP. As shown by the attached articles from the Wall Street Journal and Gas Daily, this radical change in market conditions has been attributed to a number of factors, including the increased use of natural gas in electric generation, less than anticipated supplies of natural gas from Canada, and abnormally low storage levels.

Laclede intends to do whatever it can to procure reasonable price protection for its customers outside the ambit of the Price Protection Incentive in the months that remain before the onset of the winter heating season. However, as a result of the Company's decision to declare the Price Protection Incentive component of the Program inoperable this year, the Company will retain no gains under that component of the Program or incur any losses resulting from the purchase of price protection above the catastrophic price level established by the program (i.e., $5.20 per MMBtu).

Sincerely,

Kenneth J. Neises

cc: Commissioners
Office of the Public Counsel
Thomas R. Schwarz, Jr.
David M. Sommerer

LACLEDE GAS COMPANY
720 OLIVE STREET
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AREA CODE 314
342-0532

MICHAEL C. PENDERGAST
ASSISTANT VICE PRESIDENT
ASSOCIATE GENERAL COUNSEL

FILED[3]

SEP 0 1 2000

Missouri Public
Service Commission

September 1, 2000

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
Governor Office Building
200 Madison Street
P. O. Box 360
Jefferson City, MO 65102-0360

RE: Case No. GO-2000-394

Dear Mr. Roberts:

Enclosed for filing, please find the original and eight copies of the Unanimous Stipulation and Agreement in the above-referenced case.

Please file-stamp the additional copy of this Stipulation and return the same in the pre-addressed, stamped envelope provided.

Thank you for your consideration in this matter.

Sincerely,

Michael C. Pendergast

Michael C. Pendergast

MCP:kz

cc: All parties of record

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's)
Experimental Price Stabilization Fund. Case No. GO-2000-394

UNANIMOUS STIPULATION AND AGREEMENT

COME NOW Laclede Gas Company ("Laclede" or "Company"), the Staff of the Missouri Public Service Commission ("Staff"), and the Office of the Public Counsel ("Public Counsel") and represent to the Missouri Public Service Commission ("Commission") that they have reached a Unanimous Stipulation and Agreement (hereinafter "Stipulation") in the above-captioned case. For their Stipulation, the Parties state as follows:

1. On July 7, 2000, Laclede filed a Verified Application in the above-captioned case in which it requested authorization to implement certain temporary revisions to its Price Stabilization Program (the "PSP") for the second year of the program. The proposed temporary revisions were designed to provide the Company with additional flexibility and funds to obtain price protection in the wake of significant and continuing upward pressure in the market price for natural gas. Specifically, Laclede requested that the Commission:

(a) Increase to ten million dollars, plus transaction costs, the Maximum Recovery Amount ("MRA") established in Case No. GO-98-484, to procure financial instruments for the upcoming winter heating season;

(b) Specify that the Company may, but shall not be required to, obtain financial protection for the upcoming winter heating season in an amount up to 70% of

Laclede's normal flowing supply requirements for the months of November through March;

Specify that such financial protection may, at the Company's election, be procured in the same or varying quantities for each month, including zero for certain months; and

Authorize the Company to expand the type of financial instruments it may procure for these purposes to include both collar arrangements and fixed price instruments, with the condition that the Company be authorized to flow through to its customers pursuant to its Purchased Gas Adjustment Clause all realized gains and losses associated with such instruments.

At the time it filed its Verified Application, Laclede also filed a Motion for Expedited Treatment of its Application.

2. On July 19, 2000, the Staff filed its Response to the Verified Application in which it recommended that the Commission grant only part of the relief requested by Laclede in its Application. On July 21, 2000, Public Counsel also submitted a Response. It recommended that the Commission reject Laclede's Verified Application and instead instruct the Company to comply with the terms of its existing PSP. The Company filed its reply to these responses on July 25, 2000.

3 On August 1, 2000, the Commission issued an Order Denying Motion for Expedited Review, Setting Prehearing Conference and Directing Filing of Procedural Schedule. In that Order, the Commission established a prehearing conference for August 17, 2000. As a result of their discussions at the prehearing conference, the undersigned Parties have been able to reach agreement on the modifications set forth in subparagraphs

(b) and (c) of the Company's Verified Application. Specifically, the Parties have agreed that relaxation of the PSP's existing requirement that the Company procure price protection equal to 70% of its flowing supplies is appropriate. By permitting Laclede to obtain price protection for lesser volumes, such a revision will help to reduce the price at which such protection will be triggered for these volumes. Since the winter heating season is only slightly more than two months away, it is critical that such revisions be approved as soon as possible. Accordingly, the undersigned Parties recommend that the Commission issue its Order adopting these modifications at the earliest practical time.

4. Since the Parties were unable to agree on the Company's other proposed revisions to the PSP, all remaining provisions of the existing PSP currently in effect will remain in full force and effect.

WHEREFORE, the undersigned Parties respectfully request that the Commission issue its Order approving this Unanimous Stipulation and Agreement and directing Laclede to comply with the terms of its existing PSP with the modification that, for this year only, (a) the Company may, but shall not be required to, obtain financial protection for the upcoming winter heating season in an amount up to 70% of Laclede's normal flowing supply requirements for the months of November through March; and that (b) such financial protection may, at the Company's election, be procured in the same or varying quantities for each month, including zero for certain months.

Respectfully submitted,

Michael C. Pendergast
Michael C. Pendergast #31763
Assistant Vice President
Associate General Counsel
Laclede Gas Company
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CERTIFICATE OF SERVICE

Michael C. Pendergast, Assistant Vice President and Associate General Counsel for Laclede Gas Company, hereby certifies that the foregoing Unanimous Stipulation and Agreement has been duly served upon the General Counsel of the Staff of the Public Service Commission, Office of the Public Counsel and all parties of record to this proceeding by placing a copy thereof in the United States mail, postage prepaid, or by hand delivery, on this 1st day of September, 2000.

Michael C. Pendergast

P.S.C. MO. No. 5 Consolidated, Second Revised Sheet No. 28-e

CANCELLING P.S.C. MO. No. 5 Consolidated, First Revised Sheet No. 28-e

Laclede Gas Company
Name of Issuing Corporation or Municipality

For Refer to Sheet No. 1
Community, Town or City

SCHEDULE OF RATES

G. Experimental Price Stabilization Fund

1. Overview - For purposes of reducing the impact of natural gas price volatility on the Company's customers, the Company shall maintain a Price Stabilization Fund ("PSF") for the procurement of certain natural gas financial instruments, which procurement shall be subject to the incentive features described below. The parameters of the PSF are included in the Description of the Incentive Price Stabilization Program filed by the Company on June 25, 1999 in Case No. GO-98-484, which description has been designated "Highly Confidential" and is only available to the Missouri Public Service Commission or to any proper party that executes a non-disclosure statement. Accordingly, the definitions of certain terms have not been disclosed herein but are available in such description.

2. Accounting for Expenses and Revenues - The PSF shall be debited with all costs and expenses associated with the Company's procurement of financial instruments and credited with all gains realized from such instruments, subject to the provisions of the Price Protection Incentive and the Overall Cost Reduction Incentive set forth below.

Effective with the Company's 1999 Winter PGA rates, the Company shall include a Price Stabilization Charge in the Commodity-Related unit gas component set forth in paragraph A.2.c. of this clause, as such charge applies to all rate schedules other than LVTSS. Such charge shall be designed to recover from customers the Maximum Recovery Amount ("MRA") established by the Commission in Case No. GO-98-484 for purposes of procuring natural gas financial instruments. The PSF shall be credited with all revenues collected through such charge.

DATE OF ISSUE June 25, 1999
month day year

DATE EFFECTIVE July 26, 1999
month day year

ISSUED BY K. J. Neises, Senior Vice President, 720 Olive Street, St. Louis, MO 63101
name of officer title address

Schedule 7-1

SCHEDULE 5

IS DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY.

SCHEDULE 6

IS DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY.

P.S.C. MO. No. 5 Consolidated, Original Sheet No. 28-f

CANCELLING All Previous Schedules.

Laclede Gas Company For Refer to Sheet No. 1
Name of Issuing Corporation or Municipality — Community, Town or City

SCHEDULE OF RATES

G. Experimental Price Stabilization Fund

3. Price Protection Incentive - To provide an incentive for the Company to procure natural gas financial instruments with the greatest amount of price protection, the Company and all customers other than those billed under the LVTSS rate schedule shall share certain gains and costs as follows:

a) 100% of Type I Gains shall be credited to the PSF;

b) 75% of Type II Gains shall be credited to the PSF and the remaining 25% shall be credited to the IR Account;

c) 60% of Type III Gains shall be credited to the PSF and the remaining 40% shall be credited to the IR Account; and

d) The IR Account shall be debited and the IA Account shall be credited for 100% of Type I Costs.

The foregoing gains and costs shall be calculated in conformance with the parameters approved by the Commission in Case No. GO-98-484.

4. Overall Cost Reduction Incentive - To provide an incentive for the Company to reduce the overall cost of price stabilization, at the end of each ACA year the Company shall account for any differences between the MRA and the net cost of price stabilization ("Actual Cost") for the preceding heating season, exclusive of the gains and costs covered by Section G.3, in accordance with the following schedule:

a) If the Actual Cost exceeds the MRA, the IA Account shall be credited and the IR Account shall be debited for 100% of such excess;

b) If the Actual Cost is less than the MRA, the IA Account shall be debited and the IR Account shall be credited for 40% of the difference between the MRA and the Actual Cost so long as such difference is less than $6,666,666.66; and

c) If the difference computed in 4.b) above is greater than or equal to $6,666,666.66, the IA Account shall be debited and the IR Account shall be credited for $2,666,666.66 plus 60% of the amount by which such difference exceeds $6,666,666.66.

DATE OF ISSUE June 25, 1999 (month day year) DATE EFFECTIVE July 26, 1999 (month day year)

ISSUED BY K. J. Neises, Senior Vice President, 720 Olive Street, St. Louis, MO 63101
name of officer — title — address

P.S.C. MO. No. 5 Consolidated, Original Sheet No. 28-g

CANCELLING All Previous Schedules.

Laclede Gas Company For Refer to Sheet No. 1

Name of Issuing Corporation or Municipality — Community, Town or City

SCHEDULE OF RATES

G. Experimental Price Stabilization Fund

5. Carrying Costs - At the end of each month carrying costs shall be applied to any balance in the PSF at a simple rate of interest equal to the prime bank lending rate as published in The Wall Street Journal on the first day of such month) minus one percentage point.

6. Reconciliation - At the end of each ACA year, any debit or credit balance in the PSF applicable to the preceding heating season, including interest, shall be charged or returned to the Company's non-LVTSS sales customers through the ACA factor established in the next Winter PGA filing. Also, any debits or credits recorded in the IA Account, including any balance from the previous ACA year, shall be accumulated and combined with the appropriate Deferred Purchased Gas Cost Account balances. The Company shall separately record that portion of ACA revenue recovery which is attributable to recovery of the balance in the IA Account. Any remaining balance shall be reflected in subsequent ACA computations.

7. Term - The Incentive Price Stabilization Program shall apply to the procurement and liquidation of certain financial instruments for the three heating seasons commencing with the 1999/2000 season, subject to revisions, if any, ordered by the Commission in accordance with the terms of the Program.

DATE OF ISSUE June 25, 1999 (month day year) DATE EFFECTIVE July 26, 1999 (month day year)

ISSUED BY K.J. Neises, Senior Vice President, 720 Olive Street, St. Louis, MO 63101 (name of officer, title, address)

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a session of the Public Service Commission held at its office in Jefferson City on the 13th day of February, 2001.

In the Matter of Laclede Gas Company's Experimental Price Stabilization Fund.

Case No. GO-2000-394

ORDER MODIFYING THE EXPERIMENTAL PRICE STABLIZATION PROGRAM

On December 22, 2000, the Staff of the Missouri Public Service Commission (Staff) filed a Staff Recommendation, urging that the Commission terminate the third year of the experimental Price Stabilization Program (PSP) of Laclede Gas Company (Laclede). Staff filed an additional pleading supporting its position on January 23, 2001.

Staff notes that the Commission established this case on January 11, 2000, to monitor Laclede's experimental PSP. Laclede's PSP was authorized by the Commission in its Report and Order in Case No. GO-98-484, issued June 15, 1999. The PSP was authorized for a term of three years, with the Commission retaining the "right, but not the obligation, to review the program annually and, if necessary, revise it to correct any major deficiencies on or before February 15 of each year of the program

Staff argues that the PSP is flawed and recommends terminating third year of the PSP. Among other things, Staff states that the PSP permits the company to speculate at no risk for 90 days, while exposing customers to the risk of losing an effective cap on natural gas prices. According to Staff, when the market moves against its customers, Laclede seeks Commission approval to take the steps needed to protect customers. Staff argues that this additional delay in a volatile market results in harm to Laclede's customers.

Staff further alleges that when the market price of natural retreats from the current record levels, Laclede will reap a windfall by operation of the market, not necessarily from action of its own. Staff states that customers lose protection in a rising market, and pay more for the delivered cost of gas through incentives in a declining market.

Laclede filed responses to Staff's position on January 5, 2001, and January 29, 2001. Laclede argues that there is no justification for terminating the third year of the PSP. Laclede alleges that for a revision to be made to the PSP, the Commission must first determine that the revision is necessary to correct a "major" deficiency. Laclede indicates that there is not any deficiency in the PSP that would warrant elimination. Contrary to the Staff's assertion that the PSP "is no longer appropriate in current market conditions," Laclede asserts that the need for effective and workable price protection programs has never been greater.

ıaclede contends that as a result of its efforts under the PSP, it has converted the $4 million[1] in funds authorized under the PSP into a portfolio of financial instruments that have a realized value of $11.5 million as of the last three business days of December. In addition Laclede states that it has been able to achieve substantial reductions in the cost of obtaining price protection pursuant to the Overall Reduction Incentive component of the program. Laclede indicates that to date, these cost reductions total more than $17 million. Laclede alleges that as a result of its efforts under the PSP, the company has achieved approximately $28.5 million in financial benefits

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[1] Under the PSP, the Maximum Recovery Amount (MRA) for the program is $4 million annually, plus transaction costs.

[2] Staff and Public Counsel disagree with these calculations.

Schedule 8-2

The Office of the Public Counsel (Public Counsel filed a pleading supporting Staff's recommendation to terminate the third year of the PSP on January 29, 2001.

On January 30, 2001, the Commission issued an Order Setting Hearing, scheduling an on-the-record presentation for February 2, 2001. The Commission indicated that it required additional information regarding the alleged deficiencies of the PSP, and a more thorough explanation of the savings that have allegedly resulted from the program. At the hearing, the parties presented oral arguments on these topics. In addition, the Commission questioned counsel and witnesses for the parties.

On February 5, 2001, Staff submitted a proposed tariff incorporating its suggested modifications. On the same date, Public Counsel submitted a proposed tariff that includes the modifications supported by Public Counsel. On February 13, 2001, Laclede filed its Response to Proposed Modifications, noting that both proposals would effectively eliminate the PSP and replace it with a new set of rules to govern Laclede's hedging activities. Laclede alleges that these new rules would be counterproductive to any effective hedging activities and, in certain respects, completely unworkable. In addition, Laclede argues that such revisions are inconsistent with the terms of the company's tariff, which provides that the PSP may be "revised" to correct "major deficiencies" in the program. Laclede contends that the proposals eliminate, rather than revise, the program, and that neither proposal has been supported as necessary to correct a "major deficiency."

The Commission has reviewed the Staff Recommendation and the official case file, and considered the arguments and evidence presented at the hearing, and concludes that there is insufficient evidence to warrant terminating the third year of the PSP. However, the Commission notes that several modifications are appropriate. First, during the February 2, 2001, hearing, Laclede offered to shorten the 90-day window or procurement period to 60 days in order to alleviate some of the Commission's concerns. Commission finds that shortening the window from 90 days to 60 days has the potential to benefit Laclede's ratepayers yet will not substantially hamper the workings of the PSP. Therefore, the Commission will direct Laclede to file a tariff revision implementing this change

Second, during the hearing Laclede also offered to contribute for the third year of the PSP an additional $4 million of its own funds to the $4 million that is already authorized under the program. This modification will aid Laclede in obtaining future price protection for its customers Therefore, the Commission accepts this offer and directs Laclede to file a revision to its tariff implementing this modification.

Third, the Commission encourages Laclede to work with the Staff and Public Counsel to implement the Reconciliation process found in the PSP on an expedited basis in order to provide Laclede's ratepayers with a financial benefit more quickly.

Fourth, during the hearing Laclede indicated that it plans to seek Commission approval to extend the PSP for a fourth year. The Commission is not taking a position as to whether the program should be extended. None-theless, in order to allow sufficient time to address this issue, Commission will direct the parties to set a procedural schedule

IT IS THEREFORE ORDERED:

1. That Staff's recommendation, filed December 22, 2000, to terminate the third year of Laclede Gas Company's Experimental Price Stabilization Program is denied

2. That Laclede Gas Company is directed to file, no later than February 23, 2001, a tariff revision shortening the 90-day window to 60 days

3. That Laclede Gas Company is directed to file, no later than February 23, 2001, a tariff revision implementing its offer to contribute for the third year of the program, an additional $4 million of its own funds to the $4 million that is currently authorized

4. That the Commission encourages the parties to work together to implement the Reconciliation process found in the experimental Price Stabilization Program on an expedited basis

5. That the parties are directed to file, no later than March 7, 2001, a proposed procedural schedule to address whether the Experimental Price Stabilization Program should be continued for a fourth year

6. That this order shall become effective on February 15, 2001.

BY THE COMMISSION

Dale Hardy Roberts

Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

S E A L

Lumpe, Ch., Drainer, Murray,
Schemenauer, and Simmons, CC., concur.

Ruth, Regulatory Law Judge

SCHEDULE 9

IS DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY.