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February 15, 2000

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General Counsel

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FEB 15 2000

Missouri Public
Service Commission

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

RE: Case No. GO-2000-395

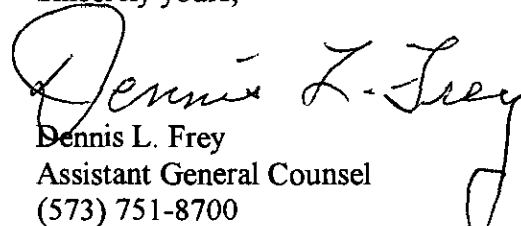
Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and fourteen (14) conformed copies of a **STAFF MEMORANDUM**.

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,


Dennis L. Frey
Assistant General Counsel
(573) 751-8700
(573) 751-9285 (Fax)

DLF/lb
Enclosure
cc: Counsel of Record

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED

FEB 15 2000

Missouri Public
Service Commission

In the Matter of Laclede Gas Company's)
Gas Supply Incentive Plan (GSIP II))

Case No. GO-2000-395

STAFF MEMORANDUM

COMES NOW the Staff ("Staff") of the Missouri Public Service Commission ("Commission") and respectfully states as follows:

1. On December 29, 1999, the Staff filed a Motion requesting that the Commission enter and Order opening a docket in the above-captioned case in order to enable Staff to monitor Laclede Gas Company's ("Laclede" or "Company") Gas Supply Incentive Program ("GSIP II"), which was approved by the Commission in its September 9, 1999 Report and Order in Case No. GT-99-303. The Commission granted Staff's request in its Order Opening Case and Directing Notice, dated January 11, 2000.

2. On January 10, 2000, Laclede filed a Response to the aforementioned Staff Motion, wherein, in addition to requesting that the Commission grant Staff's Motion and issue its standard Protective Order, the Company asked that the Commission adopt a procedure similar to that which it has followed in the past. Specifically, Laclede requested that it be required to file an annual monitoring report showing first-year results of GSIP II at the same time as the Company's 1999/2000 ACA filing (November 2000). Further, the Company stated that it would use the form of monitoring report previously approved by the Commission, but that it would modify the form as appropriate. Laclede also requested that the Staff's audit of the Company's

ACA performance be timed to coincide with its audit of the aforementioned ACA filing. In addition, Laclede proposed to make quarterly summaries of its GSIP II performance available to both Staff and the Office of the Public Counsel.

3. On January 14, 2000, the Commission issued its Order Granting Protective Order, but deferred a ruling on Laclede's requests regarding the submission of reports until after the expiration of the ten-day period within which other parties could respond.

4. In its January 20, 2000 Response to the Company's aforementioned Motion, Staff stated that it has no objections to the above-noted Laclede proposals provided that the scope of Staff's review is not limited to an audit of the transactions themselves, and that Staff would be permitted to exercise its review authority at such time as each quarterly report becomes available.

5. On February 1, 2000, Laclede filed its P.S.C. MO. No. 5 Consolidated Fourth Revised Sheet No. 28-a, with a proposed effective date of March 3, 2000. The purpose of the revision was to extend the term of GSIP II from the current expiration date of September 30, 2000 to September 30, 2002, and to modify the circumstances under which GSIP II may be modified or terminated.

6. On February 3, 2000, the Commission issued its Order Directing Reports and Regarding Revised Tariff Sheet. In addition to granting, subject to the Staff's conditions as noted in paragraph 4 above, the Company's proposals regarding the timing and filing of its GSIP II reports and the timing of Staff's GSIP II audit, the Commission ordered that Laclede's revised tariff sheet be filed in the instant docket, and further ordered that Staff "file a memorandum, including a recommendation as to whether or not the proposed tariff sheet should be approved, on or before February 15, 2000."

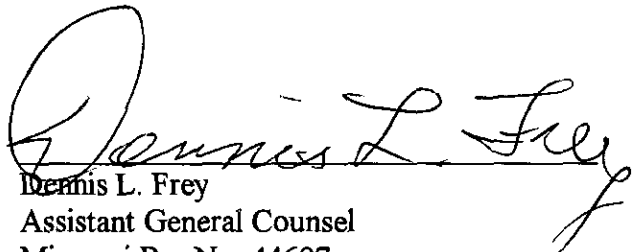
7. Pursuant to 393.150.1 RSMo (1994), Staff is concerned regarding the propriety of extending the GSIP II until it has had an opportunity to sufficiently evaluate the progress of the program so early in its term.

8. Attached hereto as Appendix A is the Staff Memorandum, in which Staff recommends that the subject revised tariff sheet be suspended at least until after the conclusion of the current legislative session and that a prehearing conference be scheduled.

WHEREFORE, for the reasons set forth in its attached Staff Memorandum, the Staff respectfully requests that the Commission issue an Order suspending P.S.C. MO. No. 5 Consolidated Fourth Revised Sheet No. 28-a until after the current legislative session is concluded, and schedule a prehearing conference.

Respectfully submitted,

DANA K. JOYCE
General Counsel


Dennis L. Frey
Assistant General Counsel
Missouri Bar No. 44697

Attorney for the
Missouri Public Service Commission
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Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 15th day of February 2000.

Dennis L. Frey

MEMORANDUM

TO: Missouri Public Service Commission Official Case File,
Case No. GO-2000-395, File No. 200000686, Laclede Gas Company

FROM: *MSR*
Mike Straub, Gas Department – Tariffs/Rate Design *MS*

Wes Anderson 2-10-00 *Steven Dett 2/15/00* *Q.L. 2-14-00*
Utility Operations Division/Date General Counsel's Office/Date

SUBJECT: Staff Recommendation on Tariff Sheets filed to Extend Laclede's Gas Supply Incentive Plan.

DATE: February 10, 2000

On February 1, 2000, Laclede Gas Company (Laclede or Company) of St. Louis, Missouri, filed a tariff sheet (Tariff) proposed to become effective March 3, 2000. The purpose of this filing is to extend the term of the Gas Supply Incentive Plan (GSIP II), and amend the circumstances under which it may be modified or terminated.

On February 3, 2000, the Commission issued an ORDER DIRECTING REPORTS AND REGARDING REVISED TARIFF SHEET (ORDER) directing the Records Department to file Laclede's proposed Tariff in this case. The Order also directed the Staff of the Commission (Staff) to file a memorandum on or before February 15, 2000 recommending whether or not the proposed Tariff should be approved.

The currently effective GSIP II gives the Company the right at any time to make a filing seeking to either terminate or modify the GSIP II if an unusual event occurs which would have a significant adverse impact on purchased gas costs. GSIP II is scheduled to expire on September 30, 2000. The Tariff filed on February 1, 2000, contains the following four modifications to the existing GSIP II:

- (1) Allows the modified GSIP II to continue in effect through September 30, 2002;
- (2) States the event to terminate or modify must now be unusual and also unforeseen;
- (3) Provides only that the triggering event have a significant impact on purchased gas costs, not limiting it to an adverse impact;
- (4) Gives the Commission Staff, the Office of Public Counsel (OPC) and any other proper party the right at any time to make a filing seeking to either terminate or modify GSIP II, and;
- (5) Adds the sentence "The operation of the GSIP may also be suspended by the Commission, pending further action by the Commission on whether to terminate or modify the GSIP, in the event and at such time legislation

materially affecting the operation of the GSIP is passed by the Missouri General Assembly and implemented in accordance with the terms of such legislation.”

In its letter accompanying this tariff filing, the Company provided several reasons why they believe this filing should be allowed to become effective on March 3, 2000, its proposed effective date. Staff will respond (*in Italics*) to some of the reasons as follows:

- (1) Company states that a full and thorough hearing was conducted in Case No. GT-99-303 and, given the time and resources that went into that process, it is clearly in everyone's interest to avoid duplicative litigation.
Staff agrees that unnecessary duplicative litigation should be avoided. However, GSIP II is still experimental and additional review now will yield a better basis upon which to modify, extend or terminate GSIP II;
- (2) The Company contends that the extension requested in this filing is fully consistent with the terms of the Commission's September 9, 1999, Report and Order in Case No. GT-99-303. That, specifically, the Commission approved a one-year term in order to allow the Commission to monitor any action that the Missouri legislature may take during the year 2000 in the area of energy deregulation. The Company's cover letter stated "According to the Co-Chair of the legislative committee charged with examining restructuring issue (i.e., the Interim Joint Committee on Telecommunication and Energy), 'there doesn't seem to be a lot of general interest in across-the-board restructuring' of the gas industry at this time."
There have been more than four bills introduced, and heard in committee, that deal with energy deregulation. Further legislative activity can be expected. Whether or not the bills are enacted this session, the Commission, utilities and consumer groups may learn from this session about the future of energy regulation. Therefore, Staff recommends the Commission suspend the proposed tariff at least until after the conclusion of the current legislative session;
- (3) Laclede states the extension of the GSIP II to three years is entirely consistent with the positions taken by all parties in Case No. GT-99-303 and that a three-year term is consistent with the term approved by the Commission for the Company's previous gas supply incentive plan.
Staff's proposed plan in Case No. GT-99-303 did contain a term of three years. However, Staff would not now recommend a three-year term given the current uncertainty regarding possible legislative action. As suggested in item (2), energy restructuring is something that may develop unexpectedly. Moreover, Staff's proposed plan in Case No. GT-99-303 was entirely different from GSIP II. Therefore, Staff agrees with the Commission's decision in Case No. GT-99-303, that a one-year term is appropriate;
- (4) The Company indicates that the tariff filing addresses the concerns previously voiced by the OPC in Case No. GT-99-303 that it be permitted to seek re-examination of GSIP II in the event of changed circumstances.
Staff has no opinion regarding this matter;

- (5) Laclede states that the procedures for obtaining information regarding changed circumstances are in place under the recently opened Case No. GO-2000-395 for the purpose of monitoring the Company's performance under GSIP II.

Staff agrees that Case No. GO-2000-395 was opened to monitor GSIP II and that Case No. GO-2000-395 is an appropriate vehicle to determine whether this filing should be approved as filed or suspended for further review. Staff cannot recommend the tariff sheet be approved until after the Company provides to Staff and OPC the first and second quarterly reports, as ordered by the Commission. Staff will also need time for the Company to answer questions regarding said reports, and;

- (6) The Company states: "Finally, by permitting the revised tariff sheet to become effective on the proposed effective date, the Commission can eliminate at least some degree of uncertainty in the Company's gas supply planning by removing an abrupt and looming deadline beyond which there can be no assurance regarding the standards that will govern the Company's performance in this area."

Staff continues to believe that an incentive plan should not be the driving force in the Company's decisions to purchase and deliver gas.

Staff has additional concerns not addressed by Laclede in its cover letter. Laclede has major supply and transportation contract changes pending, and its unregulated subsidiary has finalized a multi-year arrangement with UtiliCorp. The effects of these impending changes and the affiliate's agreement will need to be reviewed in the current GSIP II. Also, the current GSIP II has only been in place for 4 (four) months, which has not given the Staff adequate time to evaluate the modifications of moving from the historical GSIP to the current GSIP II.

The Staff has reviewed the Company's letter and accompanying tariff sheet and is of the opinion that the Commission should suspend the tariff sheet at least until after the conclusion of the current legislative session. This would allow Staff, OPC and others time to review the first and second quarterly reports to be provided by the Company. Staff recommends that the Commission set a prehearing conference for a date following the conclusion of the current legislative session, in order to enable the parties to discuss approval of the tariff sheet and if necessary, to recommend the establishment of a procedural schedule. In addition, Staff recommends that the following tariff sheet, filed on February 1, 2000, be suspended:

P.S.C MO. No. 5 Consolidated

Fourth Revised Sheet No. 28-a, cancelling Third Revised Sheet No. 28-a

Service List for
Case No. GO-2000-395
Revised: February 15, 2000

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