LACLEDE GAS COMPANY
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March 1, 2000

FILED

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Missouri Public
Service Commission

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

RE: Case No. GO-2000-394

Dear Mr. Roberts:

Enclosed for filing, please find an original and fourteen copies of Laclede Gas Company's Response to Staff Recommendation in the above referenced case. Please see that this filing is brought to the attention of the appropriate Commission personnel.

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

Thank you for your consideration in this matter.

Sincerely,

Thomas M. Byrne

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Missouri Public Service Commission

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

LACLEDE GAS COMPANY'S RESPONSE TO STAFF RECOMMENDATION

COMES NOW Laclede Gas Company ("Laclede" or "Company"), and in response to the Staff Memorandum filed in the above-referenced case on February 9, 2000 states as follows:

1. On October 6, 1999 and December 1, 1999, Laclede submitted to the Commission reports of the transactions it conducted under the Price Stabilization Program ("PSP") approved by the Commission in its June 15, 1999 Report and Order issued in Case No. GO-98-484. These reports covered hedging transactions that Laclede entered into in advance of the winter of 1999/2000. All of the transactions were completed prior to November 1, 2000.

2. On February 9, 2000, the Staff filed its Memorandum in this case in which it supported continuation of the PSP with no changes to its structure. Pursuant to its terms, the PSP will accordingly continue to operate for at least another year. Despite its recommendation in this regard, however, Staff's Memorandum included two observations regarding Laclede's performance under the program which Laclede believes are unjustified. First, the Staff noted that "the hedge prices obtained by Laclede are higher than other LDC's [sic] in Missouri engaged in hedging activities." Second, the Staff stated that "Laclede, by hedging several million mmbtu's of gas supply above and

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beyond what the Company was required to hedge, could have exposed its customers to significant price risk at these higher hedged prices."

3. Since Laclede does not have access to the confidential hedging transactions of other utilities, it obviously cannot determine whether the Staff's first observation is factually correct, or to what degree the prices paid by Laclede are higher than those paid by other utilities. For the same reasons, the Company is also unable to determine whether other utilities protected as much of their flowing winter supplies as Laclede was able to protect. To the extent such differences exist, however, Laclede believes there are legitimate reasons for them that have been left unexplained by Staff.

4. First, Laclede's PSP was approved by the Commission in June of 1999, at a time when gas prices had substantially risen and were continuing to escalate. Given the sharp rise in prices, and the even more dramatic increases that would have been expected had the first several winter months been colder than normal, Laclede determined that it was appropriate to procure as much price protection on as many volumes as possible. This same potential for escalating price trends was also noted by the Commission when it expeditiously approved Missouri Gas Energy's ("MGE") hedging program several months later. *See* Order Approving Tariff, Case No. GO-2000-231, p. 2. In hindsight, it is clear that the higher prices paid by Laclede resulted, in part, from the fact that prices were peaking in the several months immediately after Laclede was first authorized to make such purchases.[1] It is also clear that the result would have been different had

[1] To the extent MGE was able to procure protection at lower prices than Laclede, it is likely due to the unusual and fortuitous circumstance that gas prices dropped sharply as a result of unusually warm weather in the early months of the 1999/2000 heating season, immediately following the Commission's approval of MGE's program. In fact, absent the unusually warm weather, it is likely that MGE's prices would have been higher than Laclede's. This result does not in any way suggest that it was unreasonable for Laclede to acquire its price protection in advance of the heating season.

Laclede been authorized to purchase such instruments sooner (i.e. beginning in March of last year, as requested by the Company).

5. Second, the hedge prices Laclede obtained may also have been higher than the prices obtained by other utilities with hedging programs because, as the Staff points out in its memorandum, Laclede elected to hedge more than the minimum percentage of its winter gas supplies it was required to protect under the PSP. Although it is true that Laclede's decision to hedge more volumes necessarily resulted in higher strike prices in the hedging transactions, this result is not antithetical to the goals of the PSP. From the very beginning, one of the primary goals of the PSP has been to protect customers against catastrophic increases in price. Consistent with that goal, the decision to procure protection on more volumes provided Laclede's customers with greater insurance against a catastrophic run-up in gas prices during the 1999/2000 winter.

6. Moreover, as the Staff Memorandum implicitly acknowledges, Laclede's decision to hedge more volumes at higher strike prices had absolutely no adverse impact on customers. Actual gas prices during the winter of 1999/2000 remained below the strike prices of hedge transactions that Laclede actually entered into, <u>and</u> below the lower strike prices of hedge transactions it could have entered into, if it had elected to hedge only the minimum requirements under the program. Consequently, the Staff's statement that Laclede "could have exposed its customers to significant price risk" is based on a hypothetical price scenario far different from that which actually occurred, and for that reason as well it is not a valid or meaningful observation of Laclede's performance under the PSP. The fact is, no matter what hedging decisions Laclede or any other utility may make in any particular year, there will always be hypothetical pricing scenarios which

would support a different hedging strategy. Staff's attempt to question Laclede's hedging strategy based on such a hypothetical scenario merits no consideration by the Commission in evaluating Laclede's performance under the program.

Respectfully submitted,

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CERTIFICATE OF SERVICE

Thomas M. Byrne, Associate Counsel for Laclede Gas Company, hereby certifies that Laclede Gas Company's Response to Staff Recommendation has been duly served upon 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 March, 2000.

Thomas M. Byrne