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BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's Purchased Gas Adjustment for 2008-2009	))	**Case No. GR-2010-0138**

RESPONSE TO STAFF RECOMMENDATIONS

COMES NOW Laclede Gas Company (hereinafter "Laclede" or "Company") and, pursuant to the Commission's January 14, 2011 procedural order in this case, submits its Response to Staff Recommendations. In support thereof, Laclede states as follows:

I. Introduction

On December 30, 2010, the Staff of the Missouri Public Service Commission (hereinafter the "Staff") submitted its Memorandum and Recommendation ("Memorandum") in Case No. GR-2010-0138 for the Company's 2008-09 Actual Cost Adjustment ("ACA") period. In its filing, the Staff makes a number of recommendations, together with some analysis and comment. This Response addresses only those items expressly recommended by the Staff and certain comments related thereto. It should be noted that Laclede does not necessarily agree with, or acquiesce in, other comments in the Memorandum not specifically addressed in this Response.

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

A. Upstream Pipeline Capacity Analysis

1. CEGT Capacity for Peak Day

In its December 30, 2010 Recommendation, Staff repeated the assertion from its 2007-08 Recommendation that Laclede is double counting certain pipeline capacity, resulting in the Company believing it has more usable capacity than it actually has. In addition to addressing this issue in Case No. GR-2008-0387 on February 26, 2010, Laclede also made a filing on January 14, 2011, in which it explained that it actually does have practical access to and use of the full amount of pipeline capacity represented. The Company believes this issue has been addressed, and it has nothing further to add at this time.

2. MoGas Pipeline Capacity for Peak Day

Staff seeks an explanation for how Laclede would deliver **_______________

____** In response, Laclede states that **____

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3. Gas Supply for February and March Peak Day

Staff is concerned that Laclede is underestimating required supply on MRT. Staff wants an explanation of which supply contracts can be used with assurance for native supply on MRT for a peak day. In response, Laclede states that **______________

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4. Propane Peaking Supply for February and March Cold Days

Staff is concerned that Laclede's upstream analysis shows **__________

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______** In response, Laclede states that **____________________________

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Laclede would also note that its design winter does not include unusually cold weather in both February and March. Planning for the coldest periods experienced in each month to all occur in one winter would result in an overabundance of supply with corresponding costs. Instead, Laclede's plan accounts for a particularly difficult winter as a whole. For example, the 1935-36 design winter included a cold snap in mid-February but did not include a particularly cold March. As a result, Laclede's use of **____________

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B. Laclede's Gas Supply Plans

1. Update Justification for Supply Plans for Cost and Volumes

Staff's recommendation on this subject is reprised from previous years, including the 2007-08 ACA period covered by Case No. GR-2008-0387. Laclede most recently responded to this recommendation on January 14, 2011, and provided information to the Staff on January 31, 2011. Laclede considers this matter to be fully addressed.

2. Target Dates for Physical Supply Volumes

Staff's recommendation on this subject was also brought forward from Case No. GR-2008-0387. Laclede responded to this recommendation on January 14, 2011, and also provided information to the Staff on January 31, 2011. Laclede considers this matter to be fully addressed.

3. RFP Process for Swing Gas

Staff complains that Laclede's RFP bid requests covered First-of-Month (FOM) index pricing and Daily index pricing, but not the lower of FOM and Daily, which Laclede later added. Staff recommends that Laclede add the lower of FOM and Daily upfront in its RFPs. In response, Laclede agrees with Staff and states that the Company has already adopted that practice. Laclede considers this matter to be fully addressed.

4. Gas Supply Plans – On-System and GSC Schedule Documentation

Staff's originally made its recommendation on this subject in Case No. GR-2008-0387. Laclede responded to this recommendation on January 14, 2011, and also provided information to the Staff on January 31, 2011. Laclede considers this matter to be fully addressed.

III. Affiliate Transactions and Fair Market Value

A. Assessing Fair Market Value for Affiliate Transactions

In this section, Staff repeated many of the same concepts from past Laclede and Atmos ACA cases. These concepts continue to be in direct conflict with the Commission's Affiliate Transaction Rules ("Rules") and the Cost Allocation Manual ("CAM") that Laclede has been required to follow in conducting and accounting for transactions with its affiliates. For example, Staff continues to claim that "One way of assessing the fair market value of affiliate agreements is to look at the elements of the underlying supply that were used to fulfill LER's obligation to provide firm service for delivery of natural gas." (Staff Recommendation, p. 7) This is absurd. The supplier's cost of goods is not "one way" of assessing the fair market price of a gas sale any more than the cost of lumber is "one way" of assessing the fair market price of a home sale. This is simply Staff's way of saying that the utility should be required to buy its marketing affiliate's gas at the affiliate's cost, while it buys non-affiliate gas at a true fair market price. And since no company would do business with a counterparty at cost, this is also Staff's way of saying that there should be no affiliate transactions.

Although the Staff at first disguised its antipathy to affiliate transactions by pretending to be earnestly pursuing a prudence standard, the Staff has more recently been willing to openly contradict the Rules and the CAM by brazenly asserting that an affiliate should not be permitted to earn any return on a gas transaction with the utility. For whatever reason, the Commission has, to date, taken no action to prevent the Staff from pursing these unlawful positions. As a result, year after year, the Staff flaunts the Commission's Rules, violates Commission pleading rule 4 CSR 240-2.080(7), and in the process wastes the resources of the Company, its ratepayers and Missouri taxpayers, all with apparent impunity.[1]

Rather than belabor the point by repeating all of the allegations and arguments here, Laclede will incorporate its responses filed in previous ACA Cases and in two complaint cases, Case Nos. GC-2011-0006 and 2011-0098, as if fully set forth herein. Laclede would note that the Staff seeks to keep this docket open, apparently indefinitely, for further review of affiliate transactions. Laclede objects to leaving the matter open. Although Staff has had a year to conduct its ACA review, it has not made an allegation that any specific affiliate transaction was priced in violation of the Rules or the CAM, nor has it asserted a disallowance. Under these circumstances, Laclede requests that this matter be closed with respect to the subject of affiliate transactions.

B. Controls to Assure Affiliates are Not Receiving Preferential Treatment

1. As in III.A above, Staff repeats its annual claim that it would like to make sure that controls are in place to assure that Laclede is not giving LER preferential treatment, and not transferring sales opportunities from the utility to the affiliate. It is difficult to take Staff's concerns seriously, given the Staff's disrespect for the Rules, not to mention its disregard for the CAM that Staff itself promoted as the definitive tool to protect customers. Nevertheless, as Laclede has responded in the past, there are two

[1] To date, the Commission has dismissed without hearing Laclede's counterclaim that Staff violated the Rules and the CAM, and has found on summary determination that Laclede violated an agreement that the Commission had nullified in order to allow Staff to issue discovery prohibited by that agreement.

controls that can best insure proper behavior. First, Laclede's gas supply personnel should be rewarded for their performance on behalf of the utility, so that they have no incentive to act otherwise. Second, such personnel should be aware of and understand the rules for pricing affiliate transactions that were specifically established to prevent preferential treatment from being provided to an affiliate. Both controls are in place today.

2. Gas Supply Deal with Affiliate

Staff complains that Laclede issued an RFP in July 2008, but later, in October 2008, Laclede entered into a baseload contract with LER on slightly different terms than in the corresponding July RFP. Staff acknowledges that Laclede shopped the October deal to multiple competitors, but complains that it was not subject to a full RFP process. Staff wants Laclede's policies and procedures to address (i) making sure all bidders have the same information in RFPs or negotiated deals, and (ii) in negotiated deals, documenting contacts with its affiliate and re-contacting all of the original bidders. In response, Laclede notes that it obtained competitive bids both in July 2008 and in October 2008. LER's price quote was clearly the second best of all of the offers. Since Laclede had already taken the best offer, entering into the arrangement with LER was eminently reasonable.

At the same time, Laclede appreciates Staff's willingness to provide constructive input on affiliate transactions.[2] Laclede understands that affiliate transactions are subject to scrutiny – that is why the Rules and the CAM exist. Laclede intends to follow the

[2] Laclede notes with caution the schizophrenic nature of Staff's advice. On the one hand, Staff's opposition to affiliate transactions is so strong that it is currently taking Atmos to hearing in an ACA case despite the fact that Atmos conducted an RFP that was satisfactory to Staff. On the other hand, in this case, Staff makes suggestions aimed at improving Laclede's RFP process. Laclede can only conclude that if it conducts an RFP to Staff's satisfaction, Staff will nevertheless persist in disallowing market based affiliate transactions.

Rules that require the Company to either obtain competitive bids or demonstrate why such bids were neither necessary nor appropriate.

IV. Missouri Pipeline Company Charges

Laclede has placed MPC on notice that, based on the outcome of the pending appeal of the Commission's decision, Laclede may assert a credit due for past purchases. The Commission's decision appears to be final. As recommended by Staff, the Company is currently working with counsel to prepare an action against MPC.

V. Hedging

Staff's narrative regarding hedging is markedly similar to its discussion and recommendations on this subject over the past few years. Laclede responded to these matters in its responses in Case No. GR-2008-0387 on February 26, 2010 and again on January 14, 2011. Laclede incorporates its responses in that docket as if fully set forth herein. Laclede will provide to Staff during the course of each audit the documentation as represented in those responses and, as it has done in the past, will continue to provide Staff access to hedging information, along with market-based information available to Laclede, which illustrates for Staff the market conditions at the time of hedging purchases.

WHEREFORE, for the foregoing reasons, Laclede respectfully requests that the Commission accept this Response.

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 February, 2011.

/s/ Gerry Lynch
Gerry Lynch