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December 22, 2000

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FILED²
DEC 22 2000
Missouri Public
Service Commission

RE: Case No. GO-2000-394 Laclede Gas Company's Experimental Price Stabilization Fund

Dear Mr. Roberts:

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

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,

Thomas R. Schwarz, Jr.
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Enclosure
cc: Counsel of Record

FILED

DEC 22 2000

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

Missouri Public
Service Commission

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

STAFF RECOMMENDATION

COMES NOW Staff ("Staff") of the Missouri Public Service Commission ("Commission") and, with respect to the Experimental Price Stabilization Program of Laclede Gas Company ("Laclede" or "Company"), respectfully recommends to the Commission as follows:

1. The Commission established this case on January 11, 2000, to monitor Laclede's Experimental Price Stabilization Fund ("PSP"). Laclede's PSP was authorized by the Commission in its Report and Order in Case No. GO-98-484, issued June 15, 1999 ("R&O").

2. The PSP was authorized for a term of three years, the Commission retained "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." (R&O, p 9).

3. The purpose of the PSP was to provide "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." (R&O, p. 9).

4. In the first year of operation of the PSP, Laclede purchased financial instruments limiting price exposure on more than 70% of Laclede's normal flowing (that is, non-storage) heating season natural gas supplies. None of the financial instruments finished in the money, at least in part because natural gas prices remained under \$2.25.

5. We are now in the second year of the PSP. After having secured a number of financial instruments, Laclede notified the Commission by letter on June 1, 2000 ("June 1 letter"), that it would not participate in the incentive PSP for the second year of the PSP. Laclede cited an unanticipated runup in the price of natural gas, beginning in April, 2000, as the reason for its action.

6. On July 7, 2000, Laclede filed an Application for Authorization to Implement Temporary Revisions to Price Stabilization Program. In its application Company sought authorization to spend ten million dollars to obtain price protection for customers for the 2000-2001 heating season; relax the required volumes for which it was required to obtain such protection; and to permit use of additional types of financial instruments to secure such price protection.

7. In its response to Laclede's application, filed July 19, 2000, Staff noted that the June 1 letter was a predictable result in a rising natural gas market. The PSP provides a 90 day decision-making window after the setting of the program parameters, which in a rising market will preclude obtaining the target prices. The late cancellation of the PSP in any year will leave customers exposed to the vagaries of the market.

8. Staff recommended to the Commission that it a) authorize Laclede to expand the type of financial instruments it may procure as price protection for customers to include both collars and fixed-price instruments; b) remove the requirement that Laclede obtain financial protection for 70% of its normal flowing supplies for the months of November, 2000 through March, 2001; c) specify that Laclede may procure the same, varying, or zero financial protection for each such month; d) state that Laclede is to make the necessary gas purchase decisions that are required for it to fulfill its obligation to provide safe and adequate service at just and reasonable rates, which

will be reviewed in the ACA process. The Staff also recommended that it would review the cost of any financial instruments in the appropriate ACA process.

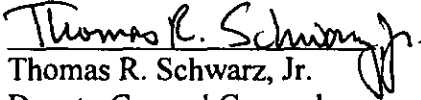
9. Subsequently, Laclede, Staff and the Office of the Public Counsel reached a Stipulation and Agreement relaxing the PSP's requirements that Laclede procure price protection for 70% of its flowing supplies, but leaving the remaining provisions of the PSP in effect.

10. For the reasons set forth at length in its July 19, 2000, Response, Staff renews the recommendations set out in Paragraph 8, when the Commission considers whether the PSP should continue for a third year.

WHEREFORE, because the PSP is no longer appropriate in current market conditions Staff recommends to the Commission that it terminate the third year of the PSP, and advise Laclede to make the necessary gas purchasing decisions required to fulfill its obligation to provide safe and adequate service at just and reasonable rates.

Respectfully submitted,

DANA K. JOYCE
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Certificate of Service

I hereby certify that copies of the forgoing have been mailed or hand-delivered to all counsel of record as shown on the service list attached this 22nd day of December, 2000.

Thomas R. Schwarz, Jr.
Thomas R. Schwarz, Jr.

Service List for
Case No. GO-2000-394
Revised: September 21, 2000 (SW)

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