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July 19, 2000

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**FILED<sup>3</sup>**

**JUL 19 2000**

**Missouri Public  
Service Commission**

**RE: Case No. GO-2000-394**

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and eight (8) conformed copies of **STAFF'S RESPONSE**.

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.*

Thomas R. Schwarz, Jr.  
Deputy General Counsel  
(573) 751-5239  
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TRS:sw  
Enclosure  
cc: Counsel of Record

BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION

FILED<sup>3</sup>

OF THE STATE OF MISSOURI

JUL 19 2000

Missouri Public  
Service Commission

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

Case No. GO-2000-394

STAFF'S RESPONSE

1. COMES NOW the Staff of the Missouri Public Service Commission (Staff) and in response to a Commission order directing a Staff response to a letter filed on June 2, 2000 by Laclede Gas Company (Laclede) and in response to an application filed by Laclede on July 7, 2000 for authorization to implement temporary revisions to its price stabilization program states as follows:

**Response to June 2, 2000 Letter**

2. On June 15, 1999, the Commission issued its order in Case No. GO-98-484, which adopted Laclede's modified position regarding an Experimental Price Stabilization Program (PSP). The Commission found in the case that adoption of Laclede's PSP would 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."
3. The Commission in its July 21, 1999 order closed Case No. GO-98-484 effective July 26, 1999.

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4. On January 11, 2000 the Commission opened Case No. GO-2000-394 to facilitate Staff's monitoring of Laclede's Experimental PSP.
5. On June 2, 2000, Laclede filed a letter in Case No. GO-2000-394 captioned "Notice Regarding Price Protection Incentive" ("Letter"). The Letter indicates that Laclede is exercising its right to declare the Price Protection Incentive component of their PSP inoperable for the second year of the program. Laclede noted that its decision was necessitated by radical changes in the market conditions governing natural gas in general and natural gas financial instruments in particular. Laclede stated that the cost to provide catastrophic price protection had more than tripled over the amount authorized for that purpose under the PSP. Laclede indicated that it 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.
6. On June 22, 2000, the Commission issued an order in Case No. GO-2000-394 directing the Staff of the Missouri Public Service Commission to respond to the Letter no later than July 21, 2000.
7. Laclede's PSP has worked as planned. In order to provide Laclede and its customers the opportunity for speculative gains, the plan has insulated Laclede from upward market risk for 90 days at the expense of customer exposure to those market risks.<sup>1</sup>
8. The trade-off for the 90-day window is that Laclede is now subject to the normal Actual Cost Adjustment ("ACA") process. A critical component of that process is a prudence review of the utility's gas purchasing practices. Laclede has had the benefit

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<sup>1</sup> In a market moving down from the March triggering events, by definition, Laclede and its customers will save money.

of its bargain, and Staff will not recommend that customers now assume additional costs and risks that Laclede has accepted in exchange for the incentive aspects of the PSP.

9. In Staff's view, the Letter leaves Laclede's customers without the guaranteed catastrophic price protection which the Commission found would occur when Laclede's proposed PSP was adopted in Case No. GO-98-484. Laclede's action places its ratepayers in a position without price protection at a time when protection against catastrophic prices has tripled in cost. These are the very market conditions when catastrophic price protection is needed most. Through its decision to declare the Price Protection Incentive component inoperative (an option Laclede clearly had the right to exercise) Laclede has shifted the risk and consequences of the lack of catastrophic price protection from its shareholders in today's high price natural gas market to its ratepayers.
10. The lack of catastrophic price protection under current market conditions results from the decisions made by Laclede. Neither the Commission, its Staff, nor the Office of Public Counsel made the decisions that produced this result. The actual decisions made by Laclede, and the prudence of those decisions, will be examined in the relevant ACA audit.
11. The PSP has failed to achieve one of its major objectives, guaranteed catastrophic price protection. When the consequences of Laclede's actions under the experimental PSP are better understood, the Staff will file a pleading in time for the Commission to modify or eliminate the incentive aspects of the PSP prior to the 2001-2002 heating season.

### **Response to July 7, 2000 Application**

12. On July 7, 2000, Laclede filed in Case No. GO-2000-394 its VERIFIED APPLICATION FOR AUTHORIZATION TO IMPLEMENT TEMPORARY REVISIONS TO PRICE STABILIZATION PROGRAM ("Application"). In its Application Laclede requests that the Commission approve several temporary modifications to the PSP, which would allow Laclede the opportunity to obtain meaningful price protection for its customers, notwithstanding the significant and continuing upward pressure in the market price for natural gas. Specifically, Laclede seeks Commission approval and authority to: 1) increase the Maximum Recovery Amount (MRA) established in Case No. GO-98-484, by six million dollars to procure financial instruments for the upcoming winter heating season; 2) remove the requirement to obtain financial protection for up to 70% of Laclede's normal flowing supply requirements for the months of November, 2000 through March, 2001; 3) specify that financial protection may at Laclede's election be procured in the same or varying quantities for each such month, including zero for certain months; and 4) authorize Laclede 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 is authorized to flow through to its customers pursuant to its Purchased Gas Adjustment Clause all realized gains and losses associated with such instruments. Laclede asserts that the interests of its customers would be best served by giving the Company, at the earliest possible date, the requested PSP

modifications to address the provision of price protection for its customers in the upcoming winter season in an effective and timely manner.

13. Laclede's management has the responsibility to operate all aspects of the Company. The responsibility to manage the Company and make related decisions is not one that Laclede can transfer to the Commission, nor is it a responsibility that the Commission can accept. The inability of Laclede to make timely decisions regarding its operations including gas purchasing decisions will impair the Company from fulfilling its obligation to provide safe and adequate service at just and reasonable rates. Laclede's practice to require Commission approval of the gas price protection parameters before the Company makes these decisions implicitly transfers the responsibility for these decisions to the Commission.
14. Laclede should not postpone critical gas procurement decisions until the Commission issues an order approving a proposed decision. The Commission should not endorse or encourage this practice. The Commission should not be involved in the utility's decision-making function. The Commission's role is to review the impacts of those decisions that are relevant to the exercise of the Commission's statutory authority.
15. Laclede does not need Commission approval before it can and should make the decisions necessary to obtain meaningful price protection for its customers, notwithstanding the significant and continuing upward pressure in the market price for natural gas. Customers will be best served by the Company's making effective and timely decisions. The delay in this decision-making process to seek unnecessary Commission approval is neither timely nor effective. The delay may create a situation

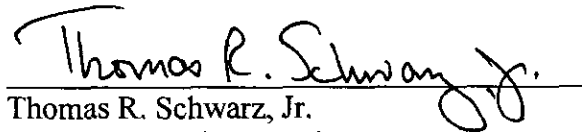
where the correct decision is not made because Laclede waited to obtain an unnecessary Commission approval.

16. The Staff recommends that the Commission address Laclede's July 7, 2000 Application by: a) authorizing 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) removing the requirement that Laclede obtain financial protection for 70% of its normal flowing supplies for the months of November, 2000 through March, 2001; c) specifying that Laclede may procure the same, varying, or zero financial protection for each such month; d) stating 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 Commission should further indicate that it will review the cost of any financial instruments in the appropriate ACA process. The Commission should not adopt the approach requested to approve the prudence and ratemaking treatment of Laclede's gas purchase decisions before those decisions are made.

**WHEREFORE**, in compliance with the Commission's orders regarding Laclede's June 2 and July 7 filings, the Staff requests the Commission to issue its order as recommended above.

Respectfully submitted,

DANA K. JOYCE  
General Counsel

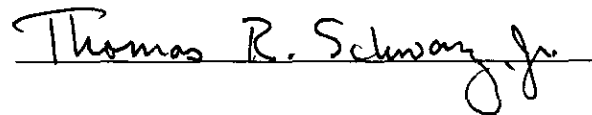


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### **Certificate of Service**

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 19<sup>th</sup> day of July, 2000..





**Service List for**  
**Case No. GO-2000-394**  
**Revised: July 19, 2000**

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