BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's)
Purchased Gas Adjustment for 2005-2006) Case No. GR-2006-0288

RESPONSE TO STAFF RECOMMENDATIONS

COMES NOW Laclede Gas Company (hereinafter "Laclede" or "Company") and, pursuant to the Commission's April 11, 2008 procedural order in this case, submits its Response to Staff Recommendations. In support thereof, Laclede states as follows:

I. <u>Introduction</u>

On December 31, 2007, the Staff of the Missouri Public Service Commission (hereinafter the "Staff") submitted its Memorandum and Recommendation ("Memorandum") in Case No. GR-2006-0288 for the Company's 2005-2006 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 Non-Monetary Recommendations.

During the course of its discussions with the Staff over the past several months, Laclede has indicated its willingness to adopt a number of the non-monetary recommendations made by Staff in the Memorandum. These include the following recommendations:

- (a) that the Company's Reliability Report address how its pipeline capacity reliably meets the requirements of Laclede's system, including an explanation of how MoGas or other pipeline capacity is necessary to assure that available capacity is sufficient to provide service in the western end of Laclede's service territory (*see* item 1a on page 3 of the Memorandum);¹
- (b) that the Company update its Reliability Report to assure that it accurately reflects the available capacity for the months covered by the Report (item 1b, page 3 of the Memorandum);²
- (c) that the Company continue to provide Lange UGS winter operational data, including daily UGS supply feeder pressure, UGS withdrawal, pressure at both Lorentz and Woodsmill, and the temperature (item 2, page 4 of the Memorandum);
- (d) that the Company revise its tariff to tie the charge for natural gas used during curtailments to the higher of \$20 per therm or the daily NYMEX price plus an appropriate adder (item 3, pages 4-5 of the Memorandum);
- (e) that the Company's Reliability Report address whether, and to what extent, reliability is impacted **

 ______** in the event this should occur in the future (item 4, page 5 of the Memorandum);
- (f) that the Company provide information reconciling nominations to metered volumes (*see* the Recommendation set forth under the heading "Volume Reconciliation" on page 11 of the Memorandum).³

¹In the future, the Company will include a copy of the distribution system load studies in the Reliability Report. These studies demonstrate the demand requirements of the various portions of Laclede's distribution system.

²The Company believes that its Reliability Reports have, in all material respects, accurately reflected the capacity under contract at the time they were prepared. If additional capacity is acquired after the Reliability Report is completed, the Company will endeavor to update it.

With respect to Staff's recommendation on page 6 of the Memorandum that
Laclede routinely update its baseload/combination/swing study and assess the study's
interrelationship with the Company's Request for Proposal ("RFP") process, Laclede
would note, as evidenced on page 7 of the Memorandum and on page 4 infra, **
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Laclede is willing to collaborate with the Staff on its Recommendation that Laclede perform a cost/benefit analysis pertaining to the payment of producer demand charges for the right to obtain gas supplies at first-of-the-month ("FOM") prices. (*See* Item 6, pages 7 to 8 of Staff's Memorandum). For the reasons cited by the Company in its testimony in Case No. GR-2004-0273, however, Laclede does not believe that a hindsight analysis of the relative costs and benefits of this contracting practice would be particularly helpful. **

³As the Staff recognizes in its Memorandum, the Company has previously provided documentation designed to reconcile all nominations and deliveries of gas by all suppliers. While Laclede believes that this documentation has accurately and fully reconciled all nominations and deliveries, it will continue to work with the Staff to help it verify this reconciliation.

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Laclede will also continue to cooperate with the Staff in providing information
and documentation on a prospective basis relating to its hedging activities in response to
Staff's Recommendation No. 6 on pages 13 to 14 of its Memorandum. Laclede would
note, however, that its Risk Management Strategy, which was designed to stabilize prices
consistent with Commission's Natural Gas Price Volatility Mitigation Rule (4 CSR 240-
40.018), requires **
** Laclede also

will continue to provide the Staff access to the market-based information available to Laclede, which illustrates for Staff the market conditions at the time of hedging purchases. Laclede does not believe, however, that it is either analytically useful, nor administratively feasible, to provide further detail, including a minute-by-minute view of why each hedge position is initiated.

Laclede also agrees to the Staff's requests in Recommendation Nos. 6c and 6d. Laclede has previously provided written explanations of both of these issues in the past, but agrees to provide additional information in writing to further clarify these matters for Staff. Regarding Recommendation No. 6e, Laclede makes available to Staff a monthly and cumulative hedging report and agrees to continue to do so, including the status of separate hedge targets on a prospective basis. Laclede will also endeavor to determine what kind of information and analysis, in addition to all of the hedging information already provided by the Company, would be responsive to Staff's Recommendation No. 6f.

With respect to Staff's Recommendation on page 10 regarding Laclede's offsystem sales, Laclede would note that it has commenced an internal review of the questions raised by Staff and has notified the FERC Staff that it has taken this action.

Laclede does not agree, however, with Staff's Recommendation at pages 10 to 11 of its Memorandum that the Commission should open up an investigatory docket to explore whether Laclede has complied with the Commission's affiliate transactions rule in its dealings with Laclede Energy Resources ("LER), a marketing affiliate of Laclede's. Laclede would note that as a result of the Stipulation and Agreement in its 2007 Rate Case proceeding, the Company, Staff and Office of the Public Counsel have already

agreed to collaborate on an assessment of the Company's Cost Allocation Manual and its compliance with the Commission's Affiliate Transaction Rule. Pursuant to that agreement, several meetings on this subject have already been held and the Company remains committed to continuing this process. As a result, a process for addressing the general parameters that should govern the Company's affiliate transactions already exists. In addition, this and other ACA proceedings are also available to promptly address any perceived problems or deficiencies with the specific transactions that have been undertaken between Laclede and LER. In view of these existing avenues for addressing the Company's affiliate transactions, Laclede believe there is simply no justification for launching yet another proceeding or investigation into this matter.

In any event, since the Staff's call for such a docket is premised on the "concerns" that it has raised in this proceeding over transactions between Laclede and LER, Laclede believes that the Commission should carefully evaluate whether there is any validity to those concerns before it launches yet another proceeding. As discussed below, Laclede believes that any reasonable examination of the actual evidence in this proceeding will demonstrate – and demonstrate conclusively – that the Company has complied fully with the Commission's affiliate transactions rules in its dealings with LER. It will also demonstrate that there is no basis whatsoever for any of the nebulous concerns that have been raised by Staff in this proceeding, let alone any basis for its proposed disallowances.

To the contrary, Laclede believes that the evidence will show that it is the Staff, and not the Company, that has failed to abide by the clear language of the Commission's affiliate transactions rule by proposing adjustments that are completely unmoored from the explicit requirements and standards that have been established by the Commission to

govern such transactions. Indeed, in making its recommendations in this case, the Staff has shown a callous indifference to the actual rules that have been approved by the Commission in this area, having opted instead to invent and apply its own notions of the principles and standards that should govern such transactions. Given these considerations, Laclede respectfully submits that the Commission should, consistent with its normal procedures for processing ACA issues, evaluate the evidence in this case and determine for itself whether there is any validity to the claims and concerns that the Staff has raised regarding Laclede's affiliate transactions. Laclede is confident that once it does, the Commission will conclude that there is no basis for Staff's recommendation that an investigatory proceeding be opened to address this matter.

III.	The Com	<u>missic</u>	on Sho	uld Reject	t Staff's	Propo	osed	Adjustn	nents Rel	ating to
	Purchase	s and	Sales	involving	Laclede	and	its	affiliate,	Laclede	Energy
	Resource	<u>S.</u>								
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⁴It is instructive to note that Staff has proposed a total of \$4.5 million in disallowances, despite the fact that, after two years of audits, Staff does not even allege, much less prove, an actual violation of the Commission's Affiliate Transaction Rule. As discussed herein, Staff bases its proposed disallowance on a

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afterthought.

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WHEREFORE, for the foregoing reasons, Laclede respectfully requests that the Commission reject Staff's proposed disallowances.

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 1st day of May, 2008.

/s/ GerryLynch

Gerry Lynch