Exhibit No.:	
Issue:	*** <u>Swing Supply Demand Charges</u> ***
Witness:	*David M. Sommerer*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Rebuttal Testimony*
Case No.:	*GR-2004-0273*
Date Testimony Prepared:	*October 19, 2006*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

DAVID M. SOMMERER

LACLEDE GAS COMPANY

CASE NO. GR-2004-0273

Jefferson City, Missouri
October 2006

** **<u>Denotes Highly Confidential Information</u>** **

HC

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the PGA filing for Laclede Gas Company.	))	Case No. GR-2004-0273

AFFIDAVIT OF DAVID M. SOMMERER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

David M. Sommerer, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 9 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

David M. Sommerer

David M. Sommerer

Subscribed and sworn to before me this 18th day of October 2004.

Ashley M. Harrison

Notary Public

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

ASHLEY M. HARRISON
My Commission Expires
August 31, 2010
Cole County
Commission #06898978

TABLE OF CONTENTS

REBUTTAL TESTIMONY

OF

DAVID M. SOMMERER

LACLEDE GAS COMPANY

CASE NO. GR-2004-0273

<u>LIST OF SCHEDULES:</u>

REBUTTAL TESTIMONY

OF

DAVID M. SOMMERER

LACLEDE GAS COMPANY

CASE NO. GR-2004-0273

Q. Please state your name and business address.

A. David M. Sommerer, P.O. Box 360, Jefferson City, Mo. 65102.

Q. By whom are you employed and in what capacity?

A. I am the Manager of the Procurement Analysis Department with the Missouri Public Service Commission.

Q. Are you the same David M. Sommerer that filed direct testimony in this case?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to rebut the direct testimony of Laclede Gas Company (Laclede, Company) witness George E. Godat.

Q. Please provide an executive summary of your testimony.

EXECUTIVE SUMMARY

A. On pages 2 and 3, of his direct testimony Mr. Godat cites three primary reasons that the Commission should reject Staff's proposed disallowance. In essence he states that there is a failure to show imprudence, that there is an absence of harm, and an inconsistency with the natural gas price volatility mitigation rule. The Staff disagrees with these characterizations. Simply put, the Company failed to develop a timely analysis to evaluate ever increasing ** producer demand charges **. The analyses referred to by

HC

Mr. Godat were obsolete and flawed in the case of the ** 1996 study or after the fact in the case of the 2005 study **. Staff is asserting that it was imprudent for Laclede to approximately double the amount of ** fixed charges to producers for the right to pay a FOM commodity price based on a seven year old study that did not examine the reasonableness of this action at the current levels of demand charges **. The Staff calculated harm by evaluating the costs of using the Company's method versus the alternative of pricing ** swing supply at daily prices **. Finally, there is no inconsistency with the natural gas price volatility mitigation rule. In fact, the technique that Laclede cites as a hedging practice, ** index pricing, was firmly rejected by this Commission as not being a purchasing mechanism for attempting to address upward price volatility **. See Schedule 1 regarding the Commission's Order on Rulemaking regarding natural gas price volatility mitigation.

Q. Why do you say that ** index pricing was firmly rejected as a method to address upward price volatility ** ?

A. The idea of referring to ** "index pricing" ** as a tool to hedge gas prices was brought up in Case No. GX-02-478, the Commission's rulemaking to address gas price volatility. Although the Commission did not imply that ** index contracts are imprudent and/or inappropriate in a well-structured purchasing portfolio, index contracts were not considered as a purchasing mechanism for attempting to address upward price volatility **.

Q. On pages 3 and 4, of his direct testimony Mr. Godat describes the "History of Contracting Practice". Do you agree with his characterization on page 4, lines 14 through 20, as to the reason why Laclede pays ** demand charges in connection with swing supplies ** ?

A. Yes, as far as it goes, but there are other reasons that Mr. Godat does not state in this section, which gives ** Laclede an incentive to enter into these types of pricing provisions even in the face of escalating costs for these rights. If Laclede has a pool of gas that is available at First-of-Month (FOM) index pricing, the supply may be priced below the daily market price. Thus, the FOM priced gas is an attractive option for off-system sales. The Company has a great deal of upside profit potential with "off-system" sales that are facilitated by this pricing practice, including FOM index sales to its affiliate Laclede Energy Resources (LER). **

Q. Do you agree with Mr. Godat's characterization ** of FOM pricing for swing supply as a "hedging strategy" ** on page 4, line 21, of his direct testimony?

A. No. I think it is more accurate to echo the Staff's comments in the Commission's rulemaking in Case No. GX-02-478 ** ". . . index contracts are generally not considered effective in addressing upward price volatility, in fact they are the very contracts that tend to bring upward price volatility into an LDC's purchasing portfolio." ** Please see the Order on Rulemaking attached as Schedule 1 that contains the referenced statement.** FOM index pricing is unknown until the index is published during the month the gas is scheduled to flow. ** For example, ** Laclede did not know the price of gas for February 2004 until February 2, 2004, the first business day in that month. The price of natural gas is basically unbounded, with no effective ceiling on how high the price can go. This Commission has had experience with the uncertainty that index ** pricing brings to the setting of the PGA rate.

Price mitigation is not an uncommon practice for Missouri LDCs. However, when asked (see Highly Confidential Schedule 2) Laclede could ** not identify another LDC that uses its approach to swing pricing **.

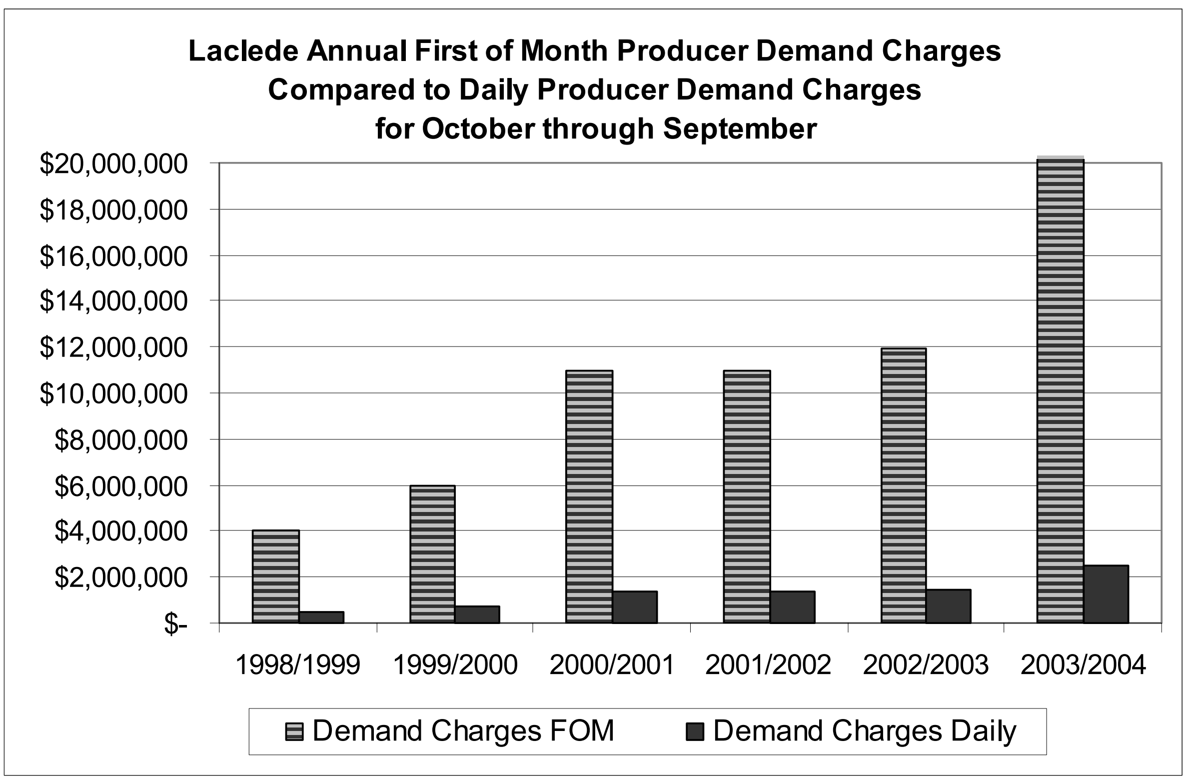
Q. On page 5, line 11-14, Mr. Godat states that the Staff has long been aware of Laclede' practice of ** paying producer demand charges on its swing supplies **. Do you agree?

A. Yes. However, the point is that even a long-standing practice must be regularly reviewed in the light of changing market conditions. There was a near doubling of ** these fixed charges for the winter of 2003-2004 **. These market conditions were readily apparent to Laclede when it chose to continue paying the increasing ** producer demand charges for the winter of 2003-2004. Laclede failed to update its 1996 study until 2005, after the period in question. **.

As noted in my direct testimony from the 2002/2003 ACA to the 2003/2004 ACA, ** producer demand charges nearly doubled from approximately $11.9 million to $20.3 million dollars. The producer demand charges ** for each of the ACA periods 1998/1999 through 2003-2004 are shown in the chart below. (The details are provided in Highly Confidential Schedule 3 of my direct testimony.)

Chart is Highly Confidential in it Entirety

**



HC

<u>*Producer Demand Charges for baseload, combination, and swing contracts*</u> **

As noted in my direct testimony, besides the study being woefully stale, it contained certain flaws that were recognized in Laclede's own footnotes to the study. Thus, the savings calculated in Laclede's study are overstated.

Q. Has Mr. Godat cited Laclede's ** <u>1996 and 2005 studies</u> ** as support for his direct testimony?

A. Yes, page 8, of Mr. Godat's rebuttal testimony provides this discussion. In this discussion, Mr. Godat carefully navigates the obvious inadequacies of an outdated study ** <u>(1996 study) on one hand and an after the fact study (2005 study)</u> ** on the other. In essence, Mr. Godat appears to make the argument that since the practice of ** <u>FOM pricing is long-standing and that daily gas prices are volatile, Laclede's decision to pay producer demand charges</u> ** at any level is self-evident. However, just because a study was conducted in 1996 and not done again until after the ACA period in question here, does not make the practice worth questioning. There was a near doubling of these fixed charges for the winter of 2003-2004. Laclede knew this when they received responses to their ** <u>natural gas request for proposals (RFPs) that were sent in September 2003. Absent an update to the 1996 study, Laclede still saw the tremendous increase in producer demand charges before the winter of 2003-2004 and yet Laclede offers no evidence that it negotiated with suppliers for alternate demand charges for swing contracts priced at daily market prices. In fact, Laclede's RFP does not indicate that the daily pricing alternative for swing gas was sought as an alternative. See Highly Confidential Schedule 3</u> **.

Q. On page 9, lines 9-18, of Mr. Godat's rebuttal testimony, the comment is made that change in the ** <u>rising demand costs</u> ** were "minuscule" compared to the rising commodity costs? Do you agree with that characterization?

HC

A. No. It's hard to view a ** <u>nearly $10 million increase in producer demand charges</u> ** as miniscule. In reality, the Company has numerous methods to control price volatility. Rather than representing some uncontrollable market price multiplied by the volumes purchased, the overall cost of a company's gas portfolio is impacted by numerous decisions that are under its control. Each one of these decisions may impact the total gas cost by several million dollars. ** <u>Obviously, when a $10 million decision is divided by $ 700 million in gas costs,</u> ** the percentage impact seems minor. ** <u>$10 million</u> ** is not minor to customers who ultimately pay these costs.

Q. Do you agree with Mr. Godat's discussion indicating on page 10, of his testimony that there is absence of harm?

A. No. The Staff has calculated its estimate of harm by its adjustment in this case of $2,424,020.

Q. Do you agree the ** <u>Staff has completely ignored the revenues imputed to customers from off-system sales</u> ** as discussed on page 11, lines 1-21, of Mr. Godat's rebuttal testimony?

A. No. Mr. Godat's argument is that since the Company's revenue requirement in Case No. GR-2002-0356 included a $3.8 million imputation for off-system sales and capacity release revenues, ** <u>Staff disallowance should effectively be negated</u> **. There are several reasons why the Staff did not calculate any offset for off-system sales benefits. First, there is no certainty about the ** <u>split between capacity release and off-system sales</u> ** in the $3.8 million imputation. There was no stipulation as to the breakdown between ** <u>capacity release and off-system sales. Second, it would be extremely difficult and perhaps impossible to establish how much "swing contracts" enabled the Company to execute an off-system sale transaction over the time period that the $3.8 million imputation was developed. In other</u>

words, some unknown portion of the $3.8 million is attributable to off-system sales. Some much smaller portion would be attributable to the Company having swing contracts that had a FOM pricing provision that in turn facilitated an off-system sale that would not have taken place absent the swing contact with the FOM pricing provision. Additionally, Laclede can make off-system sales using its baseload or combination contracts, and Staff has made no disallowance in this case for baseload or combination contracts. **

Q. What further complications result from trying to identify some benefit from having ** swing supply historically priced using FOM pricing **?

A. The Company has failed to mention that the bulk of the ** producer demand charges it pays is related to "combination" agreements **. An assumption would have to be made regarding how much of the unknown ** off-system sales assumed to be within the $3.8 million was made possible by the so-called combination agreements as opposed to the swing agreements. If approximately three-fourths of the contracts that have producer demand charges are related to combination supply, then only one-fourth of the off-system sales may be applicable to swing contracts. That said, if there were idle combination agreements, they may have been used to totally displace any use of swing contracts that might have otherwise been priced under a daily pricing scenario **.

Q. Do you agree with Mr. Godat's statement on page 11, lines 22 – 23, and page 12, lines 1 and 2, that:

> On the other hand, the failure to reject Staff's proposed disallowance would deprive Laclede of the value of what it bargained for in the Stipulation – and in the process violate that agreement – by taking away with an ACA adjustment what the Company was entitled to keep under the Stipulation

A. No. The Staff is not arguing that the $3.8 million was somehow understated and is seeking to modify that amount with a rate case adjustment in the ACA process. This case involves the disallowance of ** a portion of demand charges paid to producers **. The costs are considered a "gas cost" subject to the PGA/ACA process. The costs must be justified in terms of prudence as any other cost that is recovered through the ACA.

Q. Do you agree with Mr. Godat's discussion on page 12 and 13, of his testimony that the Staff's proposed disallowance is somehow inconsistent with the price volatility mitigation rule set forth at 4 CSR 240-40-018?

A. No. The Company's premise that ** FOM index pricing for swing contacts is a valuable hedging tool for hedging intra-month price spikes ** has to be accepted before any conceivable inconsistency could be considered. ** Swing gas **, by definition, may not be used. Laclede has ** combination contracts ** and storage resources that it can utilize when the weather turns cold. ** Swing gas ** may also be utilized when the weather turns cold. However, Laclede's contract provisions for ** combination contracts require that it use a minimum volume ** of gas from these contracts. Thus, Laclede nominates gas from the ** combination contracts ** to meet these requirements. Additionally, Laclede has minimum withdrawal requirements for its storage resources. Thus, the ** swing gas is traditionally the last gas ** to be accessed. Therefore, arguing that a ** premium ** at any cost, is worth the value is questionable.

Even one of the listed tools from the volatility rule, call options, may not make sense if the strike price is too high or the premium too expensive for the insurance. For example, although a call option can provide a ceiling for how high gas prices can go, the premium that must be paid to provide that protection must not be ignored. In this case, the Company appears to argue that pricing ** swing supply at the FOM index has so much value that the "premium" (producer demand charges) it not critical in evaluating the decision to choose daily versus monthly prices **. Here the company is arguing that a pricing provision ** with huge volatility is a good hedge against a pricing provision with even higher volatility. However, withdrawal of natural gas from storage is one means of managing daily volatility **. In addition, the great majority of the Company's other ** supply (baseload and combination) would have been FOM indexed priced. Laclede's combination contracts can be increased or decreased on a daily basis **.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

4 CSR 240-13.055, and the utility shall separately report on the information listed below for customers receiving energy assistance and customers who are affected by 4 CSR 240-13.055 and not known to be receiving energy assistance. All information submitted shall be considered public information; however, no customer-specific information shall be reported or made public. Utilities providing both electric and gas service shall report the information separately for their gas-only territory:

(A) How many customers were:

1. Disconnected at the end of the period;

2. Of those disconnected, how many customers had service discontinued for non-payment during the period;

3. Of those discontinued during the period, how many customers were restored to service during the period.

(C) Of those customers reconnected during the period:

1. How many customers received energy assistance (pledged or paid) from:

A. Low Income Home Energy Assistance Program (LIHEAP);

B. Energy Crisis Intervention Program (ECIP);

C. Other sources known to the utility.

2. How much energy assistance was provided by:

A. LIHEAP;

B. ECIP;

C. Other sources known to the utility;

D. Customer.

(G) For how many customers during the period did the utility receive:

1. LIHEAP;

2. ECIP;

3. Other assistance known to the utility.

(H) How much cash did the utility receive on behalf of customers during the period from:

1. LIHEAP;

2. ECIP;

3. Others known to the utility.

Title 4—DEPARTMENT OF ECONOMIC DEVELOPMENT
Division 240—Public Service Commission
Chapter 40—Gas Utilities and Gas Safety Standards

ORDER OF RULEMAKING

By the authority vested in the Public Service Commission under sections 386.250 and 393.140, RSMo 2000, the Public Service Commission adopts a rule as follows:

4 CSR 240-40.018 is adopted.

A notice of proposed rulemaking containing the text of the proposed rule was published in the *Missouri Register* on June 2, 2003 (28 MoReg 1032). Those sections with changes are reprinted here. This proposed rule becomes effective thirty (30) days after publication in the *Code of State Regulations*.

SUMMARY OF COMMENTS: A public hearing on this proposed rule was held July 10, 2003, and the public comment period ended July 3, 2003. At the public hearing, Warren Wood, Manager of the Energy Department of the Public Service Commission of Missouri, explained the development of the proposed rule and presented the Staff's responses to all written comments that had been provided to the Commission regarding the proposed rule through an exhibit that was marked Exhibit No. 1 and entered into the record. Jim Busch—an economist with the Office of the Public Counsel; Scott Glaeser—manager of natural gas supply and transportation for Ameren Energy Fuels and Services Company; Sean Gillespie—director of gas supply planning and operations for the southern region of Aquila; Rob Hack—attorney for Missouri Gas Energy; Mike Pendergast—attorney for Laclede Gas Company; and Anita Randolph—director of the Department of Natural Resources' Energy Center all presented oral comments regarding the proposed rule at the public hearing.

COMMENT: Douglas E. Micheel, Esq., Senior Public Counsel, Office of the Public Counsel, on behalf of the Office of the Public Counsel, endorsed the proposed rule.
RESPONSE: No changes have been made to the proposed rule as a result of this comment.

COMMENT: Jim Busch, Economist for the Office of the Public Counsel, on behalf of the Office of the Public Counsel, endorsed the proposed rule. Mr. Busch also responded to some recommended changes that other parties would like to see made to the proposed rule. Mr. Busch expressed opposition to changing or removing the word "upward" regarding upward price volatility, the recommendation of adding index pricing to the proposed rule and that of adding NYMEX to section (2)(F) of the proposed rule where it lists futures contracts. Mr. Busch also expressed concern over adding energy efficiency to the rule since this rule is really structured as a supply side rule, and energy efficiency is a demand side concern. Also, in response to questions from the administrative law judge, Mr. Busch noted that "usage" as listed in the rule associated with usage volatility should remain in the proposed rule.
RESPONSE: No changes have been made to the proposed rule as a result of these comments.

COMMENT: Dean L. Cooper, Attorney, as attorney for Aquila, Inc. d/b/a Aquila Networks—MPS and Aquila Networks—L&P, endorsed the proposed rule. Aquila did note agreement with "technical drafting issues raised by other Missouri gas utilities," but did not recommend any specific changes to the rule.
RESPONSE: No changes have been made to the proposed rule as a result of this comment.

COMMENT: Sean Gillespie, director of gas supply planning and operations for the southern region of Aquila, on behalf of Aquila, endorsed the proposed rule and the comments that were provided by the other utilities, especially those of Ameren. Mr. Gillespie specifically endorsed the addition of NYMEX and OTC clarifications to the proposed rule, since there are a lot of tools available. Mr. Gillespie also noted that Aquila believes that adding energy efficiency to the rule is not appropriate since this rule deals with the supply side and not the demand side, but did note that they would be in support of a separate rulemaking. Mr. Gillespie also noted that weather hedges should be added to the rule, to remove any ambiguity.
RESPONSE: No changes have been made to the proposed rule as a result of these comments. The comments of AmerenUE, and the Commission's responses to those comments, are addressed below. The Commission has considered the addition of weather hedges to the proposed rule and believes that this tool is covered under the last provision of section (2) of the rule.

COMMENT: Brenda Wilbers, Program Director, Department of Natural Resources—Policy and Planning, on behalf of the Department recommended that section (2) of the rule be expanded to include energy efficiency programs and that a separate workgroup and rule be established to address energy efficiency programs.
RESPONSE: The Commission has considered these comments and notes that the second comment does not relate to a recommended change to this rule and will therefore not be addressed in this response. The first comment relates to broadening the language in section (2) of the proposed rule to include energy efficiency programs. The stated purpose of this rule is to provide "a statement of Commission policy that natural gas local distribution companies should undertake diversified natural gas purchasing activities as part

of a prudent effort to mitigate upward natural gas price volatility and secure adequate natural gas supplies for their customers." While the Commission is generally supportive of the issues noted by the Department in its comments, this rule is structured to address supply side planning whereas energy efficiency is a demand side consideration. No changes to the proposed rule have been made as a result of these comments.

COMMENT: Anita Randolph, director of the Department of Natural Resources' Energy Center, on behalf of the Department, stated that the proposed rule would benefit from the inclusion of the energy efficiency.
RESPONSE: No changes to the proposed rule have been made as a result of this comment. The issue addressed by Mrs. Randolph mirrors that of Mrs. Wilbers of the Department of Natural Resources and the Commission's response to this issue is provided in the response to Mrs. Wilbers' comments.

COMMENT: Warren Wood, Manager, Energy Department of the Public Service Commission, stated that the Staff has been very supportive of weatherization programs, energy conservation programs and low-income assistance programs that were structured appropriately. Further, Staff is supportive of initiatives for addressing energy efficiency programs. Staff cannot, however, recommend that the rule be expanded to include "Energy Efficiency Programs" as an option that natural gas utilities should pursue in their efforts "to minimize the impacts of market price spikes and provide a level of stability of delivered natural gas prices." Staff does not believe that adding energy efficiency to section (2) of the rule is appropriate since this rule is directed at supply side planning issues and not demand side remedies.
RESPONSE: No changes to the proposed rule have been made as a result of these comments.

COMMENT: James M. Fischer, Attorney, as attorney for Union Electric Company d/b/a AmerenUE, endorsed the proposed rule, thanked the Commission for the opportunity to participate in the development of the proposed rule and suggested several changes. AmerenUE suggested that the following changes to the proposed rule would be appropriate:

1. That the rule specify that cash gains or losses associated with instruments used to mitigate price volatility be flowed through the PGA mechanism;

2. That "NYMEX" be inserted in front of "Futures Contracts" in section (2) of the proposed rule;

3. That section (2) of the proposed rule be expanded to include "Financial Swaps and Options from OTC Markets";

4. That the pricing structures listed in section (2) of the proposed rule be expanded to include indexed contracts; and

5. That wherever "upward" appears in subsection (1)(C) of the proposed rule it should be replaced with the word "price."

RESPONSE AND EXPLANATION OF CHANGE: The Commission has considered the comments made by AmerenUE and agrees that some changes to the proposed rule are appropriate.

AmerenUE's first comment relates to specifically permitting a pass through of cost associated with natural gas price mitigation efforts in the PGA. The Commission agrees that this clarification is an appropriate addition to the rule and will add a sentence to the end of section (1)(B).

AmerenUE's second comment relates to placing NYMEX in front of "Futures Contracts" in subsection (2)(F). The Commission cannot support this change to the rule as it could act to exclude other futures contracts that may currently be available or will develop in the market.

AmerenUE's third recommended change was to add "Financial Swaps and Options from OTC Markets" to the options listed in section (2) of the rule. The Commission agrees that this is an appropriate addition to the rule and will change the list of options in section (2) of the proposed rule.

AmerenUE's fourth recommended change is that the list of pricing structures, mechanisms and instruments in section (2) of the proposed rule should be expanded to include indexed contracts. The Commission has considered this recommendation and cannot support this change to the rule since section (2) of the rule is intended to provide a list of pricing structures, mechanisms and instruments that natural gas utilities should consider in developing purchasing plans that consider natural gas price volatility mitigation. The Commission's exclusion of indexed contracts from the list in the rule under section (2) does not imply that index contracts are imprudent and/or inappropriate in a well-structured purchasing portfolio, just that the Commission does not consider them a purchasing mechanism for attempting to address upward price volatility.

AmerenUE's fifth comment was that "upward" should be replaced with "price" where upward volatility is noted in subsection (1)(C). The Commission has considered this recommendation and cannot support this change to the rule since its purpose is to provide a clear "statement of Commission policy that natural gas local distribution companies should undertake diversified natural gas purchasing activities as part of a prudent effort to mitigate *upward* natural gas price volatility and secure adequate natural gas supplies for their customers" *(emphasis added)*. Changing "upward" to "price" as recommended by AmerenUE is not consistent with the purpose of this rule. The Commission clarifies language in subsection (1)(C) by adding "price."

COMMENT: Scott Glaeser, manager of natural gas supply and transportation for Ameren Energy Fuels and Services Company, on behalf of AmerenUE, noted that the rule should address the rate recovery of financial instrument in the PGA. Mr. Glaeser also noted that NYMEX should be added to the rule associated with futures contracts since this is the primary futures market for natural gas trading in the United States and Canada. Mr. Glaeser further recommended that over-the-counter markets (OTC) should be referenced in the proposed rule. Mr. Glaeser's last comment was that energy efficiency is a demand side component and that this rulemaking is based on supply side price mitigation.
RESPONSE: No changes to the proposed rule have been made as a result of these comments. The issues addressed by Mr. Glaeser mirror those of Mr. Fischer that were provided on behalf of AmerenUE and the Commission's responses to these issues are provided in the responses to AmerenUE's comments.

COMMENT: Warren Wood, Manager, Energy Department of the Public Service Commission stated that the Staff is not opposed to providing clarification in the proposed rule regarding the pass through of cost related to volatility mitigation efforts in the PGA. Further, Staff is not opposed to adding financial swaps and options to section (2) of the rule. Staff believes that both of these recommended changes would provide clarification without distracting attention away from the focus of the proposed rule, which is to consider upward price volatility mitigation in purchasing strategies. Staff is, however, opposed to adding NYMEX to the reference to Futures Contracts in section (2) of the rule to avoid excluding other possible futures contracts that may currently be available or may be developed in the market in the future. Staff is also opposed to replacing "upward" with "price" wherever it appears in the rule. Staff believes that one of the primary concerns of customers being served by an LDC is that of high natural gas prices and/or sudden upward spikes in prices. The Policy Statement of the Natural Gas Commodity Price Task Force created after the winter of 2000–2001 confirms that the focus of this rule should be that of addressing upward price volatility, any efforts to change or dilute that purpose should be resisted by the Commission. Finally, Staff is also opposed to adding index contracts to section (2) of the rule since index contracts are generally not considered effective in addressing upward price volatility, in fact they are the very contracts that tend to bring upward price volatility into an LDC's purchasing portfolio.

RESPONSE AND EXPLANATION OF CHANGE: In response to the recommended changes of AmerenUE, the Commission will change the proposed rule in a manner that addresses the Staff's comments.

COMMENT: James M. Fischer, Attorney, as attorney for Atmos Energy Corporation, Laclede Gas Company, and Missouri Gas Energy or "Missouri Gas Utilities," noted general support of the proposed rule and suggested several changes. The Missouri Gas Utilities suggested that the following changes to the proposed rule would be appropriate:

1. That the word "upward" should be removed from purpose clause and subsections (1)(A) and (1)(C) of the proposed rule:

2. That the rule specify that cost associated with instruments used to mitigate price volatility be flowed through the PGA mechanism;

3. That the pricing structures listed in section (2) of the proposed rule be expanded to include indexed contracts; and

4. That the reference to "management of price and/or usage volatility" under section (2) of the proposed rule either be revised to not include "usage volatility" or that usage volatility be better defined.

RESPONSE AND EXPLANATION OF CHANGE: The Commission has considered the comments made by the Missouri Gas Utilities and agrees that some changes to the proposed rule are appropriate.

Missouri Gas Utilities' first comment is that "upward" should be removed from the purpose clause and subsection (1)(A) and (1)(C) of the proposed rule. The Commission has considered this recommendation and cannot support this change to the rule since its purpose is to provide a clear "statement of Commission policy that natural gas local distribution companies should undertake diversified natural gas purchasing activities as part of a prudent effort to mitigate *upward* natural gas price volatility and secure adequate natural gas supplies for their customers" *(emphasis added)*. Removing "upward" as recommended by the Missouri Gas Utilities is not consistent with the purpose of this rule or the Policy Statement of the Natural Gas Commodity Price Task Force that it is modeled after. The Commission clarifies the language in subsection (1)(C) by adding, "price".

Missouri Gas Utilities' second comment relates to specifically permitting a pass through of cost associated with natural gas price mitigation efforts in the PGA. The Commission agrees that this clarification is an appropriate addition to the rule and will add a sentence to the end of subsection (1)(B).

Missouri Gas Utilities' third recommended change is that the list of pricing structures, mechanisms and instruments in section (2) of the proposed rule should be expanded to include indexed contracts. The Commission has considered this recommendation and cannot support this change to the rule since section (2) of the rule is intended to provide a list of pricing structures, mechanisms and instruments that natural gas utilities should consider in developing purchasing plans that consider natural gas price volatility mitigation. The Commission's exclusion of indexed contracts from the list in the rule under section (2) does not imply that index contracts are imprudent and/or inappropriate in a well-structured purchasing portfolio, just that the Commission does not consider them a purchasing mechanism for attempting to address upward price volatility.

Missouri Gas Utilities fourth recommended change is that the reference to "management of price and/or usage volatility" under section (2) of the proposed rule either be revised to not include "usage volatility" or that usage volatility be better defined. The Commission has considered this recommendation and believes that the rule's purpose is best served by not changing this referenced language in section (2) of the proposed rule. The referenced provision in the rule is intended to be broad to be inclusive of any tools that now exist or may be developed to address price and/or usage volatility. When customers, and the utility that serves them, are impacted by price volatility they are often also being impacted by usage volatility. The current language in the rule will permit utilities to consider the usage factor during the usage spikes that often accompany price spikes. Furthermore, making the language of the rule more specific in this area could result in excluding future mechanisms that may be developed in the market. For these reasons the Commission will not change the proposed rule's provisions in this area.

COMMENT: Warren Wood, Manager, Energy Department of the Public Service Commission stated that the staff is not opposed to providing clarification in the proposed rule regarding the pass through of cost related to volatility mitigation efforts in the PGA. Staff believes that this recommended change will provide clarification to the proposed rule. Staff is however opposed to removing references to "upward" wherever price volatility is discussed in the rule. Staff believes that one of the primary concerns of customers being served by an LDC is that of high natural gas prices and/or sudden upward spikes in prices. The Policy Statement of the Natural Gas Commodity Price Task Force created after the winter of 2000-2001 confirms that the focus of this rule should be that of addressing upward price volatility, any efforts to change or dilute that purpose should be resisted by the Commission. Staff is also opposed to adding index contracts to section (2) of the rule since index contracts are generally not considered effective in addressing upward price volatility, in fact they are the very contracts that tend to bring upward price volatility into an LDC's purchasing portfolio. Staff's final opposition to the Missouri Gas Utilities' comments relates to their recommendation to remove "usage volatility" from the provisions of section (2) of the proposed rule. Staff has considered this comment and believes that the intent of the reference to "Other tools utilized in the market for cost-effective management or price and/or usage volatility" is that this be a "catch all" for other tools that may exist now or be developed in the market for addressing volatility—both price and usage. Staff is currently aware of hedging contracts that are keyed off of weather indicators (i.e. Heating Degree-Days). This provides a means to address a portion of the usage volatility that can result from abnormally cold weather. When customers are impacted by price volatility they are often also being impacted by usage volatility. Staff believes the rule should include a reference to usage volatility provisions that gas utilities may be able to consider that would help them deal with this factor during price and/or usage spikes. Staff does not recommend that the language in (2)(G) be made more specific as this could result in the rule being too narrow and no longer applying to market instruments that may be developed in the future.

RESPONSE AND EXPLANATION OF CHANGE: In response to the recommended changes of the Missouri Gas Utilities', the Commission will change the proposed rule in a manner that addresses the Staff's comments.

COMMENT: Janet E. Wheeler, Attorney, as attorney for the Missouri Energy Development Association or "MEDA," noted MEDA's general support of the proposed rule, endorsed the comments filed by various utilities and noted that the proposed rule does not go as far as it could in providing the degree of firm regulatory guidance that may be necessary to produce the sort of benefits described.

RESPONSE: The Commission has responded to each of the suggested changes by the various utilities in the Commission's responses to each of those utilities' comments. No changes have been made to the proposed rule as a result of MEDA's comments.

COMMENT: Rob Hack, attorney for Missouri Gas Energy, clarified that weather derivatives are really designed to protect the margin revenue side of things and not the PGA. They are designed to protect revenue, not bills for customers. Mr. Hack does not see

Schedule 1-3

weather derivatives as a real viable alternative to help the price volatility to customers.
RESPONSE: No changes to the proposed rule have been made to the proposed rule as a result of this comment.

COMMENT: Mike Pendergast, attorney for Laclede Gas Company, in regard to Mr. Hack's comments, noted that weather derivatives are primarily used for margin rather than for going out and trying to protect customers from unusually cold weather and that if this is to be addressed, it ought to be the subject of a separate proceeding. Mr. Pendergast also noted that simply putting the term "usage" in the rule does not adequately address the issue.
RESPONSE: No changes to the proposed rule have been made to the proposed rule as a result of these comments. The recommendation to remove "usage" from section (2) of the rule has been addressed above.

4 CSR 240-40.018 Natural Gas Price Volatility Mitigation

(1) Natural Gas Supply Planning Efforts to Ensure Price Stability.
(A) As part of a prudent planning effort to secure adequate natural gas supplies for their customers, natural gas utilities should structure their portfolios of contracts with various supply and pricing provisions in an effort to mitigate upward natural gas price spikes, and provide a level of stability of delivered natural gas prices.
(B) In making this planning effort, natural gas utilities should consider the use of a broad array of pricing structures, mechanisms, and instruments, including, but not limited to, those items described in (2)(A) through (2)(H), to balance market price risks, benefits, and price stability. Each of these mechanisms may be desirable in certain circumstances, but each has unique risks and costs that require evaluation by the natural gas utility in each circumstance. Financial gains or losses associated with price volatility mitigation efforts are flowed through the Purchased Gas Adjustment (PGA) mechanism, subject to the applicable provisions of the natural gas utility's tariff and applicable prudence review procedures.
(C) Part of a natural gas utility's balanced portfolio may be higher than spot market price at times, and this is recognized as a possible result of prudent efforts to dampen upward price volatility.

(2) Pricing Structures, Mechanisms and Instruments:
(A) Natural Gas Storage;
(B) Fixed Price Contracts;
(C) Call Options;
(D) Collars;
(E) Outsourcing/Agency Agreements;
(F) Futures Contracts;
(G) Financial Swaps and Options from Over the Counter Markets; and
(H) Other tools utilized in the market for cost-effective management of price and/or usage volatility.

Title 10—DEPARTMENT OF NATURAL RESOURCES
Division 10—Air Conservation Commission
Chapter 6—Air Quality Standards, Definitions, Sampling and Reference Methods and Air Pollution Control Regulations for the Entire State of Missouri

ORDER OF RULEMAKING

By the authority vested in the Missouri Air Conservation Commission under section 643.050, RSMo 2000, the commission amends a rule as follows:

10 CSR 10-6.110 is amended.

A notice of proposed rulemaking containing the text of the proposed amendment was published in the *Missouri Register* on June 16, 2003 (28 MoReg 1095-1105). Those sections with changes are reprinted here. This proposed amendment becomes effective thirty (30) days after publication in the *Code of State Regulations*.

SUMMARY OF COMMENTS: The Missouri Department of Natural Resources' Air Pollution Control Program (Air Program) received comments on the proposed amendment from thirteen sources: Armstrong Teasdale LLP, Associated General Contractors of Missouri, Inc. (AGC), Associated Industries of Missouri (AIM), Kansas City Health Department Air Quality Program, Springfield-Greene County Health Department Air Quality Control Program, City of St. Louis Air Pollution Control Program, Missouri Limestone Producers Association (MLPA), Patrick O'Driscoll—citizen, Regulatory Environmental Group for Missouri (REGFORM), Sierra Club of Missouri, St. Louis County Department of Health, St. Louis Regional Chamber & Growth Association (RCGA), and U.S. Environmental Protection Agency.

Due to the similarity in the following thirteen (13) comments, one (1) response that addresses these comments can be found at the end of these thirteen (13) comments.

COMMENT: Armstrong Teasdale LLP believes the Commission should fully evaluate the Program's financial situation in light of the recent budget reductions before authorizing an emission fee increase. If the Commission does authorize an emission fee increase, it should be limited to 2004 with a return to thirty-one dollars ($31) in 2005.
COMMENT: The Kansas City Health Department Air Quality Program supports an emission fee increase. The emission fees provide a substantial portion of the funding for Kansas City Air Program activities. Emission fees are also important because federal funds have been essentially flat for the past few years with the federal government expecting funding to be acquired through regulated industry.
COMMENT: The U.S. Environmental Protection Agency supports an emission fee increase that is necessary to maintain the quality, bare bones operating permit program that industry expects and is entitled to. Without the fee increase, the Air Program may not meet its federal obligations.
COMMENT: REGFORM supports an emission fee increase to thirty-four dollars ($34) which recognizes the Missouri Emission Inventory System credit of one dollar ($1) collected for calendar year 2002. The pledge to support a thirty-four dollar ($34) per ton emission fee is contingent upon the department working closely with regulated entities and their representatives to look at changes that can be made in the Program to bring the fee back down for the next year.
COMMENT: St. Louis Regional Chamber & Growth Association (RCGA) does not challenge an emission fee increase for 2003.
COMMENT: AIM discussed the emission fee situation, agreed with the position of RCGA, acknowledged REGFORM's position, and desired to be identified with the Armstrong Teasdale communications.
COMMENT: The Springfield-Greene County Health Department Air Quality Control Program supports an emission fee increase and the process used to establish the emission fee.
COMMENT: The City of St. Louis Air Pollution Control Program supports an emission fee increase to maintain current levels of protection and service.
COMMENT: The St. Louis County Department of Health supports an emission fee increase to maintain service delivery expected by the public.
COMMENT: The Sierra Club of Missouri supports an emission fee increase. In addition, they commented that the budget reductions incurred by the Missouri Department of Natural Resources and the Air Program have resulted in a leaner organization and that further funding reductions would impair the department's and Air Program's abilities to protect Missouri air quality. Also, all parties interested in breathing clean air need to work together to make a better case to

Missouri Public Service Commission

Data Request

Data Request No.	0109
Company Name	Laclede Gas Company-Investor(Gas)
Case/Tracking No.	GR-2004-0273
Date Requested	6/22/2006
Issue	Expense - Purchased Gas
Requested From	Mike Cline
Requested By	Anne Allee
Brief Description	FOM vs Daily price - identify other entities
Description	Please identify other LDCs or entities such as marketers or municipals that purchase swing and combo gas supply using first-of-month index pricing instead of daily index pricing.
Due Date	7/12/2006

The attached information provided to Missouri Public Service Commission Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the Missouri Public Service Commission Staff if, during the pendency of Case No. GR-2004-0273 before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information.

If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the Laclede Gas Company-Investor(Gas) office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports,analyses, computer analyses, test results, studies or data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control or within your knowledge. The pronoun "you" or "your" refers to Laclede Gas Company-Investor(Gas) and its employees, contractors, agents or others employed by or acting in its behalf.

Security	Highly Confidential
Rationale	Market-specific information relating to purchases in competiton with others.

With Proprietary and Highly Confidential Data Requests a Protective Order must be on file.

Missouri Public Service Commission

Respond Data Request

Data Request No.	0109
Company Name	Laclede Gas Company-Investor(Gas)
Case/Tracking No.	GR-2004-0273
Date Requested	6/22/2006
Issue	Expense - Purchased Gas
Requested From	Mike Cline
Requested By	Anne Allee
Brief Description	FOM vs Daily price - identify other entities
Description	Please identify other LDCs or entities such as marketers or municipals that purchase swing and combo gas supply using first-of-month index pricing instead of daily index pricing.
Response	The Company's general understanding has long been that first-of-month ("FOM") index pricing is commonly used by LDCs in their gas supply purchase contracts. Furthermore, with full knowledge of the Commission Staff, the Company has used FOM pricing provisions combined with supply nomination flexibility since 1993 when the Company began purchasing its own gas on an unbundled basis since such provisions were used in the contracts to which the Company took assignment from its former primary gas supplier, MRT. In addition, based on the Company's experience with its request for proposal process and its negotiations with gas suppliers it is clear to the Company that FOM pricing combined with supply nomination flexibility is not unusual or unique to the Company and instead represents a common a common and viable pricing alternative for many purchasers.
Objections	NA

The attached information provided to **Missouri Public Service Commission** Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the **Missouri Public Service Commission** if, during the pendency of Case No. **GR-2004-0273** before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information. If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the **Laclede Gas Company-Investor(Gas)** office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies or data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control or within your knowledge. The pronoun "you" or "your" refers to **Laclede Gas Company-Investor(Gas)** and its employees, contractors, agents or others employed by or acting in its behalf.

Security :	Highly Confidential
Rationale :	Marketing analysis or other market-specific information relating to services or products purchased or offered in competition with others

With Proprietary and Highly Confidential Data Requests a Protective Order must be on file.

Missouri Public Service Commission

Respond Data Request

Data Request No.	0066
Company Name	Laclede Gas Company-Investor(Gas)
Case/Tracking No.	GR-2004-0273
Date Requested	01/13/2005
Issue	Expense - Purchased Gas
Requested From	Mike Cline
Requested By	Lesa Jenkins
Brief Description	Gas Supply Planning / Reliability: RFP letters for natural gas supplies
Description	Please provide the following information for gas supplies for the Company's 2003-2004 ACA period: provide a copy of the RFP letter(s) used to solicit bids for gas supplies during the ACA period under review.
Response	See attached.
Objections	NA

The attached information provided to **Missouri Public Service Commission** Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the **Missouri Public Service Commission** if, during the pendency of Case No. **GR-2004-0273** before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information. If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the **Laclede Gas Company-Investor(Gas)** office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies or data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control or within your knowledge. The pronoun "you" or "your" refers to **Laclede Gas Company-Investor(Gas)** and its employees, contractors, agents or others employed by or acting in its behalf.

Security :	Public
Rationale :	NA

With Proprietary and Highly Confidential Data Requests a Protective Order must be on file.

Schedule 3-1

Laclede Gas Company
Request For Firm Natural Gas Supply Proposal ("RFP")

Laclede Gas Company ("Laclede") requests proposals for firm natural gas supplies for the twelve-month period beginning November 1, 2003 and for firm Fixed-Price natural gas supplies for a three-year period beginning November 1, 2003. The type and structure of the supply service requested is more fully described herein, and any bids tendered for such supply service must strictly conform to the terms and conditions contained herein. Furthermore, Laclede shall have the sole responsibility to award any bids and may at its sole discretion reject any or all bids for any reason.

Supplier Commitment

Bids tendered to Laclede by any supplier in response to this RFP shall be considered legally binding offers from such supplier and must be received by September 15, 2003 and extend from September 15, 2003 through September 19, 2003, at which time Laclede, at it's sole discretion, may elect to award such bid by notifying the supplier in writing by letter, facsimile, or e-mail on or before September 19, 2003. Upon notification of award by Laclede, supplier agrees to work diligently with Laclede to finalize and execute a firm natural gas supply contract with Laclede containing all of the applicable terms and conditions contained herein and which were provided for in supplier's winning bid.

Each supplier will be required to warrant that its sales obligations are firm and will be treated at least equal to its highest degree of supply commitment to any purchaser. In addition, a parental guarantee of performance is necessary in all cases in which a corporate subsidiary responds to this RFP with a bid.

Suppliers are invited to respond to any or all combinations of the service types and delivery locations listed below by specifying the Service Type, Maximum Quantity of the Bid ("MQB") in MMBTU per day, Delivery Location, and Price.

Service Types

Baseload Supply Service – Baseload Supply Service is firm service delivered by supplier and received by Laclede on a daily basis equal to the Maximum Daily Quantity ("MDQ") expressed as a percentage of the MQB in accordance with the following schedule:

Month	Maximum Daily Quantity
November 2003	50% of MQB
December 2003	100% of MQB
January 2004	100% of MQB
February 2004	100% of MQB
March 2004	50% of MQB
April 2004	0% of MQB
May 2004	50% of MQB
June 2004	100% of MQB

July 2004	100% of MQB
August 2004	100% of MQB
September 2004	100% of MQB
October 2004	100% of MQB

Swing Supply Service – Swing Supply is firm service and supplier will provide Laclede, at Laclede's sole discretion, daily nomination flexibility between zero and 100% of the MDQ as expressed as a percentage of the MQB in accordance with the following schedule:

Month	Maximum Daily Quantity
November 2003	70% of MQB
December 2003	100% of MQB
January 2004	100% of MQB
February 2004	100% of MQB
March 2004	100% of MQB
April 2004	100% of MQB
May 2004	0% of MQB
June 2004	0% of MQB
July 2004	0% of MQB
August 2004	0% of MQB
September 2004	0% of MQB
October 2004	70% of MQB

First of the month nominated quantities will be elected by Laclede by providing notice to supplier at least 24 hours prior to the applicable monthly pipeline nomination deadline. Revisions by Laclede to the first of the month nominated quantities will be unlimited in number during the month but notification shall be given by Laclede to supplier by no later than 9:00 a.m. Central Standard Time for the following days gas flows.

Combination Supply Service – Combination Supply Service is firm service and supplier will provide Laclede, at Laclede's sole discretion, daily nomination flexibility between zero and 100% of the MDQ as expressed as a percentage of the MQB in accordance with the following schedule:

Month	Maximum Daily Quantity
November 2003	80% of MQB
December 2003	100% of MQB
January 2004	100% of MQB
February 2004	100% of MQB
March 2004	80% of MQB
April 2004	50% of MQB
May 2004	50% of MQB
June 2004	50% of MQB
July 2004	50% of MQB
August 2004	50% of MQB
September 2004	50% of MQB
October 2004	50% of MQB

Laclede will be required to purchase a minimum annual volume of 70% of the aggregate monthly contracted quantities as determined using the MDQ's provided above. First of the month nominated quantities will be elected by Laclede by providing notice to supplier at least 24 hours prior to the NYMEX natural gas futures last day settlement for each month of contracted gas deliveries. Revisions by Laclede to the first of the month nominated quantities will be unlimited in number during the month but notification shall be given by Laclede to supplier by no later than 9:00 a.m. Central Standard Time for the following days gas flows.

Three-year Fixed Price Baseload Supply Service – Fixed-Price Baseload Supply Service is firm service delivered by supplier and received by Laclede on a daily basis for a three-year period beginning November 1, 2003 equal to the Maximum Daily Quantity ("MDQ") expressed as a percentage of the MQB in accordance with the following schedule:

Month	Maximum Daily Quantity
November	80% of MQB
December	100% of MQB
January	100% of MQB
February	100% of MQB
March	80% of MQB
April	50% of MQB
May	50% of MQB
June	50% of MQB
July	50% of MQB
August	50% of MQB
September	50% of MQB
October	50% of MQB

Delivery Location

Any volumes delivered by supplier to Laclede shall be delivered into Laclede's upstream transportation contracts from pools or points covered by Operational Balancing Agreements in accordance with the applicable pipeline tariff governing the location of delivery. Delivery locations which will be considered by Laclede under this RFP are as follows:

Midcontinent Region
NGPL Midcontinent
CenterPoint Gas Transmission – Line AD, West of Amber Junction ("West")
CenterPoint Gas Transmission – East of Chandler ("East")
Southern Star Central Gas Pipeline – Straight to Blackwell, Canadian to Blackwell, Edmond to Blackwell, or South of Edmond
PEPL (Field Zone)

Gulf Coast Region
NGPL Louisiana
NGPL South Texas
Trunkline Gas Company – Louisiana
Trunkline Gas Company - Texas

Arkansas/North Louisiana/East Texas Region
Gulf South Pipeline – Carthage Hub
Gulf South Pipeline – TGC Centerville Interconnect
Gulf South Pipeline – Anadarko CP2
Mississippi River Transmission – West Line
Mississippi River Transmission – Main Line

Volume Limitations

Suppliers responding to this RFP must limit the maximum quantity of their bids to an MQB of 20,000 MMBtu per day for any particular Service Type in any particular Delivery Location. Furthermore, suppliers responding to this RFP must limit the maximum quantity of their bids to an aggregate MQB of 40,000 MMBtu per day for all Service Types in any one region, i.e. Midcontinent, Gulf Coast, or North Louisiana.

Price

The price bid for each Service Type and Delivery Location must be presented as a quotation of a reservation charge, in cents per MMBtu. With the exception of the "Three-Year Fixed-Price Baseload Supply Service" whose pricing provisions are expressed below, the commodity charge for volumes delivered shall be based on the first of the month index price applicable to the month of delivery and Delivery Location as provided below:

Delivery Location	First of Month Index
NGPL Midcontinent	IFGMR-Natural Gas Pipeline Co. of America (Midcontinent)
CenterPoint Gas Transmission–West	IFGMR-Reliant Gas Transmission Co. (West)
CenterPoint Gas Transmission–East	IFGMR-Reliant Gas Transmission Co. (East)
Southern Star Gas Pipeline Central	IFGMR-Williams Gas Pipeline Central Inc. (Texas, Oklahoma, Kansas)
Panhandle	IFGMR-Panhandle Eastern Pipe Line Co. (Texas, Oklahoma)
NGPL Louisiana	IFGMR-Natural Gas Pipeline Co. of America (Louisiana)
NGPL South Texas	IFGMR-Natural Gas Pipeline Co. of America (South Texas)
Trunkline Gas Company – Louisiana	IFGMR-Trunkline Gas Co. (Louisiana)
Trunkline Gas Company – Texas	IFGMR-Trunkline Gas Co. (Texas)
Gulf South Pipeline – Carthage Hub	IFGMR-Henry Hub (South Louisiana) *
Gulf South Pipeline – TGC Ctrvl	IFGMR-Henry Hub (South Louisiana) *
Gulf South Pipeline – Anadarko	IFGMR-Henry Hub (South Louisiana) *
Mississippi River Transmission – W.L.	IFGMR-Mississippi River Transmission (West leg)
Mississippi River Transmission – M.L.	IFGMR-Henry Hub (South Louisiana) *

* Commodity Price for Gulf South and MRT M.L. based on Henry Hub less some basis differential.

<u>Publication</u>
IFGMR – Inside FERC's Gas Market Report, Prices of Spot Gas Delivered to Pipelines, ("Month")

Three-Year Fixed Price Baseload Supply Service – The price bid for the *Three-Year Fixed Price Baseload Supply Service* shall be stated as a fixed price in $/MMBtu for each of the months in the Nov03 thru Oct05 period and shall be inclusive of all fixed demand charges.

Index Default Pricing – For any month in which the applicable First of the Month Index is not published, the parties will determine the commodity price using the following default mechanism. The first alternative for determining the Index Price will be to use a published index for the applicable month and pipeline location from either the Natural Gas Weekly or Natural Gas Intelligence. If both published indices are available, a simple average of the two will be used to determine the index. If a price is still not available as a result of the first alternative, a simple average using a basket of indices located in the same region will be used. The parties will use best efforts to agree on an appropriate basket to be included in the Letter Agreement covering the sale and purchase. If the parties fail to agree on the basket of indices, the second alternative will not be used. If the first and second alternatives fail to determine a price, the price will be determined using the NYMEX settlement price adjusted for historical basis for the applicable location. For a winter price (winter defined as November thru March period), the five most recent available winter basis numbers will be averaged to determine the basis adjustment. For a summer price (summer defined as April thru October period), the seven most recent available summer basis numbers will be averaged to determine the basis adjustment.

<u>Force Majeure</u>

In the event either party is rendered unable by an event of Force Majeure to carry out wholly or in part its obligations under the Agreement resulting from this RFP, it is agreed that if the party claiming Force Majeure gives notice and full particulars of such event of Force Majeure to the other party as soon as practicable after the occurrence of the cause relied on, then the obligations of each party shall be suspended to the extent and only for the period of the Force Majeure condition. The party claiming the Force Majeure shall use due diligence and its best efforts to remove the cause or causes of such Force Majeure with all reasonable dispatch. Once the Force Majeure event ends, the party claiming Force Majeure shall notify the other party within 24 hours, and both parties shall endeavor to resume deliveries and takes hereunder. The term Force Majeure will mean acts of God, strikes, lockouts, or industrial disputes or disturbances, civil disturbances, interruptions by government or court orders, necessity for compliance with any court order, law, statute, ordinance or regulation promulgated by a governmental authority having jurisdiction which causes the delivery, receipt, or use of the gas to be unduly burdensome, acts of the public enemy, curtailment of primary firm transportation on the transporting pipeline(s) upstream or downstream of the receipt point that is necessary to effectuate the delivery or use of the natural gas under this agreement, or any other cause of like kind not reasonably within the control of the party claiming Force Majeure and which, by the exercise of due diligence, such party could not have prevented or is unable to overcome. Notwithstanding the foregoing, the following occurrences or events will be specifically excluded from Force Majeure: (i) increases or decreases in gas supply due to allocation or reallocation of production by well operators, pipelines, or other parties; (ii) freezing or failure of wells or appurtenant facilities; (iii) the loss, interruption, or curtailment of transportation (other than primary firm transportation on the transporting pipeline(s) upstream or downstream of the receipt point that is necessary to effectuate the delivery or use of the natural gas under this agreement) on any transporter or gatherer which is necessary to effect receipt or delivery of gas hereunder; and (iv) natural gas price considerations. A Force Majeure event will not excuse either party from the obligation of reimbursement to the other for a transportation scheduling, imbalance, or penalty charge until the party holding transportation has been notified and has a reasonable opportunity to adjust the scheduled quantity to avoid such charge.

Right to Terminate

In the event that any one instance of Force Majeure continues for a period of at least thirty (30) continuous days, then the party not claiming Force Majeure as an excuse for non-performance hereunder may, within a period of thirty (30) days thereafter, terminate the supply agreement resulting from this RFP effective on the first day of the next month following receipt by the other party of written notice to that effect.

Non-Performance

Damages for supplier's unexcused failure to deliver the nominated level of gas supply will be equal to the replacement cost of gas supplies plus $1 per MMBtu for the volume equal to the portion of the nominated volume not delivered. If Laclede is unable after using reasonable efforts to find and purchase replacement gas supplies, the damages per MMBtu applicable for the period of such failure will equal the greater of the market cost of natural gas equivalent quantities of propane, or 200% of the higher of the contract price or the Gas Daily daily index price for the appropriate location.

Damages for Laclede's unexcused failure to fulfill it's purchase obligations under a Baseload Service Type supply agreement resulting from this RFP, in dollars per MMBtu, will be equal to the difference between the contract price under this agreement and the Gas Daily daily index price for the appropriate location and day in which the purchase obligation is not fulfilled plus $1 per MMBtu.

Damages for Laclede's unexcused failure to fulfill it's purchase obligations under a Combination Service Type supply agreement resulting from this RFP, in dollars per MMBtu, will be equal to the arithmetic average of each month's first of the month index price as provided for in the commodity price provision under the Price Section of this RFP and which is applicable to any month that Laclede has a purchase obligation, plus $1 per MMBtu.

Other

The terms of the standard GISB Base Contract for Short-Term Sale and Purchase of Natural Gas will be incorporated in a binding Letter Agreement covering purchases and sales related to this RFP to the extent they do not conflict with other RFP terms.

Responses

Bids tendered to Laclede by any supplier in response to this RFP should be received in writing by Laclede no later than Monday, September 15, 2003 at 4:00 P.M. and should be forwarded to:

George E. Godat
Manager of Gas Supply
Laclede Gas Company
720 Olive Street, Room 1409
St. Louis, Missouri 63101
(314) 421-1979 (fax)
or e-mail: mailto:ggodat@lacledegas.com

For answers or clarification to any questions regarding this RFP, please contact either George E. Godat at (314) 516-8590 or Steven F. Mathews at (314) 516-8585.