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January 10, 2003

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

JAN 10 2003

**Missouri Public  
Service Commission**

Mr. Dale Hardy Roberts  
Secretary/Chief Regulatory Law Judge  
Missouri Public Service Commission  
200 Madison Street, Suite 100  
P.O. Box 360  
Jefferson City, Missouri 65102

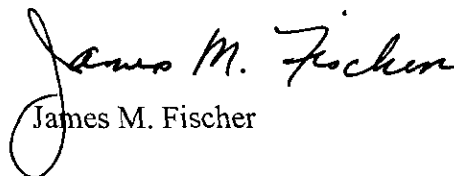
RE: *Laclede Gas Company's Purchased Gas Adjustment Tariff Revisions*  
Case Nos. GR-2001-387 and GR-2000-622.

Dear Mr. Roberts:

Enclosed for filing in the above-referenced matter is an original and the appropriate number of copies of the Surrebuttal Testimony of Michael T. Cline and the Surrebuttal Testimony of Steven F. Matthews (HC) and (NP) versions filed on behalf of Laclede Gas Company.

Copies of the foregoing have been hand-delivered or mailed this date to the Office of the Public Counsel and Dana K. Joyce, General Counsel. Thank you for your attention to this matter.

Sincerely,

  
James M. Fischer

/jr

Enclosures

cc: Office of the Public Counsel  
Dana K. Joyce, General Counsel

**Exhibit No.:**  
**Issue:** PSP Tariff Issues  
**Witness:** Michael T. Cline  
**Type of Exhibit:** Surrebuttal Testimony  
**Sponsoring Party:** Laclede Gas Company  
**Case No.:** GR-2001-387/GR-2000-622  
**Date:** January 10, 2003

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

JAN 10 2003

**LACLEDE GAS COMPANY**

**Missouri Public  
Service Commission**

**GR-2001-387/GR-2000-622**

**SURREBUTTAL TESTIMONY**

**OF**

**MICHAEL T. CLINE**

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's     )  
Purchased Gas Adjustment Tariff Revisions     )  
to be Reviewed in Its 2000-2001 Actual     )     Case No. GR-2001-387  
Cost Adjustment     )

In the Matter of Laclede Gas Company's     )  
Purchase Gas Adjustment Factors to be     )  
Reviewed in Its 1999-2000 Actual Cost     )     Case No. GR-2000-622  
Adjustment     )

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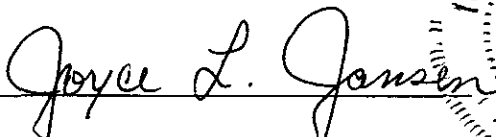
STATE OF MISSOURI     )  
                                       )     SS.  
CITY OF ST. LOUIS     )

Michael T. Cline, of lawful age, being first duly sworn, deposes and states:

1. My name is Michael T. Cline. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Director - Tariff and Rate Administration of Laclede Gas Company.
2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony, including any Schedules attached thereto.
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

  
\_\_\_\_\_  
Michael T. Cline

Subscribed and sworn to before me this 9<sup>th</sup> day of January, 2003.

  
\_\_\_\_\_  
JOYCE L. JANSEN

JOYCE L. JANSEN  
Notary Public -- Notary Seal  
STATE OF MISSOURI  
ST. CHARLES COUNTY  
My Commission Expires: July 2, 2005



**SURREBUTTAL TESTIMONY OF MICHAEL T. CLINE**

1 Q. What is your name and business address?

2 A. My name is Michael T. Cline, and my business address is 720 Olive Street, St.  
3 Louis, Missouri 63101.

4 Q. Are you the same Michael T. Cline who has previously filed rebuttal testimony in  
5 this proceeding?

6 A. Yes, I am.

7 Q. What is the purpose of your surrebuttal testimony?

8 A. I will respond to the rebuttal testimony of Staff witness David M. Sommerer.  
9 Specifically, I disagree with Mr. Sommerer's contention that the Company's Price  
10 Stabilization Program ("PSP") Tariff and Program Description lack "clarity" and  
11 therefore permit use of the Staff's rather than the Company's method of  
12 determining and allocating the savings that were achieved under the Program as a  
13 result of the proceeds generated from the Company's sale of call options. In  
14 support of my position, I will explain why there should be no uncertainty, as Mr.  
15 Sommerer's suggests there is, over whether the Tariff mandates that all proceeds  
16 from intermediate option liquidations count toward savings under the Overall  
17 Cost Reduction Incentive component of the PSP. To the contrary, the Company's  
18 treatment of these proceeds in this manner during the 2000/2001 ACA period did  
19 not break any new ground but was instead consistent with the Company's  
20 treatment of such proceeds during the previous ACA period -- a treatment with  
21 which the Staff took no exception. I will also explain how it is impossible to  
22 reconcile Mr. Sommerer's proposed method for determining and allocating such

1 savings with the PSP Tariff and Program Description by showing the tariff  
2 language that would have been needed, at a minimum, to implement that method.

3 Q. How did the Company treat proceeds under the Overall Cost Reduction Incentive  
4 component of the Company's Experimental Price Stabilization Fund during the  
5 1999/2000 ACA period?

6 A. Such treatment is illustrated in Schedule No. 1 to my surrebuttal testimony which  
7 contains a copy of the Company's response to Staff Data Request No. 9 in Case  
8 No. GR-2000-622. As shown there, during the prior ACA period, the Company  
9 sold some options that were covered by the Overall Cost Reduction Incentive  
10 component. Notably, the Company's share of the proceeds from this option sale,  
11 along with its share of other savings under this component, were determined and  
12 allocated in the Company's prior ACA filing in the same manner that they were in  
13 this case.

14 Q. When did the Company submit the attached response to the Staff?

15 A. The Company submitted this response to Staff on June 1, 2001.

16 Q. Was there any follow-up request from the Staff pertaining to this schedule or the  
17 Company's treatment of option proceeds in that ACA proceeding?

18 A. No, there was not.

19 Q. Did the Staff voice any concern regarding the Company's calculation and  
20 allocation of these amounts or express any misgivings about whether the PSP  
21 Tariff was clear enough to permit such treatment?

22 A. No, it did not. As I discussed in my rebuttal testimony, there can be no confusion  
23 over what the tariff means. The tariff defines savings or cost reductions as the

1 difference between the Maximum Recovery Amount ("MRA") and the "net cost  
2 of price stabilization." The MRA is the amount the Company is authorized to  
3 collect from customers to fund the Program, or \$4 million for the 2000/2001  
4 heating season. The "net cost of price stabilization" is just that: the actual cost to  
5 procure the financial instruments net of whatever amounts the Company received  
6 from the sale of any such instruments, exclusive of the gains and costs covered by  
7 the Company's Price Protection Incentive component.

8 Q. Did the Staff propose any disallowance pertaining to such treatment in its ACA  
9 recommendation pertaining to the 1999/2000 period?

10 A. No. Staff made no proposal to alter the Company's treatment of these amounts.

11 Q. Did Staff ever suggest that the method proposed by Mr. Sommerer in this case for  
12 determining and allocating the savings achieved under the PSP was mandated by  
13 the PSP Tariff?

14 A. No, and for good reason. The PSP Tariff would have had to have been  
15 fundamentally altered for Mr. Sommerer's method to be employed.

16 Q. What kind of language would have had to have been included in the PSP Tariff in  
17 order to reflect Mr. Sommerer's method?

18 A. At a minimum, the entire section of the current PSP Tariff describing what  
19 constitutes a cost reduction or savings for the Overall Cost Reduction Incentive,  
20 including its reliance on a comparison of the "net cost of price stabilization" to the  
21 MRA, would have had to be deleted and replaced with the following language:

22 For options that are liquidated prior to the last three days of NYMEX  
23 trading of such options ("Expiration Period") cost reductions are defined  
24 as the amount by which the actual proceeds from the liquidation of options  
25 prior to the Expiration Period exceeds the proceeds that the Company

1 could have realized had it liquidated such options sometime during the  
2 Expiration Period as further specified below. Cost reductions shall be  
3 calculated for each such option liquidated prior to the Expiration Period  
4 including those options which were financed in whole or in part by the  
5 Company's use of proceeds that had been generated by earlier liquidations  
6 covered by the Overall Cost Reduction component. For purposes of  
7 computing the proceeds that would have been realized had an option been  
8 liquidated during the Expiration Period, the value of the option shall be the  
9 arithmetic average of the closing prices of such option during the  
10 Expiration Period.

11  
12 Q. What do you conclude about the absence of this kind of language from the  
13 Company's tariff?

14 A. Since such language is needed to implement Mr. Sommerer's method, the absence  
15 of it in either the PSP Tariff or the Program Description, makes it impossible to  
16 reconcile the Company's existing PSP Tariff to Mr. Sommerer's view of how  
17 savings should be measured. In contrast, the Company's method of determining  
18 and allocating savings under the PSP does conform to the Company's existing  
19 tariff.

20 Q. Please summarize your testimony.

21 A. The Company's treatment of the savings generated by option proceeds under the  
22 Overall Cost Reduction Incentive component of the PSP Tariff has been  
23 consistently applied by the Company and previously reviewed and presumably  
24 found acceptable by the Staff prior to this proceeding. In contrast, Mr.  
25 Sommerer's suggested method for determining and allocating such savings is  
26 impossible to reconcile with both the PSP Tariff and the Program Description as  
27 illustrated by the substantial changes that would have had to have been made to  
28 the Tariff to describe and authorize such a method. Accordingly, the Commission  
29 should reject Mr. Sommerer's suggestion in this proceeding that the PSP Tariff

1           and Program Description lack “clarity” and therefore permit use of the Staff’s  
2           rather than the Company’s method of determining and allocating such savings.

3    Q.     Does this conclude your testimony?

4    A.     Yes, it does.

LACLEDE GAS COMPANY  
720 OLIVE STREET  
ST. LOUIS, MISSOURI 63101

June 1, 2001

**VIA FACSIMILE No. 573-526-4153**

Mr. Michael Wallis  
Missouri Public Service Commission  
200 Madison Street  
Governor Office Building  
Jefferson City, MO 65101

RE: Laclede Gas Company  
ACA Audit  
Case No. GR-2000-622

Dear Mike:

Enclosed are Laclede Gas Company's responses to Staff Data Request Nos. 9, 11, 13, 16, 18, 19 and 23. Please note that some of the enclosed material has been designated "**Highly Confidential**" for the reasons indicated on the attached form.

Please call me at 314-342-0524 if you have any questions.

Sincerely,



Michael T. Cline  
Director – Tariff and Rate Administration

MTC/llj  
Enclosures

cc: Bruce Bates (w/o enclosures)

Laclede Gas Company  
ACA Audit  
Case No. GR-2000-622  
Staff Data Request No. 9

- Q. Is Laclede engaged in hedging the futures market? If yes, please provide (1) all gains and/or losses as a result of involvement in the futures market, (2) the location of the gains and/or losses in Company's 1999/2000 ACA filing, and (3) all documentation which relates to Company's involvement in the futures market including Company's rationale and decision making process, reports, calculations, and all other supporting documentation.
- A. Yes, the Company is engaged in hedging pursuant to the Company's Experimental Price Stabilization Fund. For documentation relating to such hedging, see the quarterly reports the Company provided to the Staff in Case No. GO-2000-394. For the Company's rationale for its involvement in the futures market, see the Company's response to Staff Data Request No. 5005-9 in Case No. GO-2000-394. The Company's Price Stabilization Fund balance as well as the Company's share of overall cost savings it realized during the subject ACA period (see attached) are included in the Derivation of Actual Cost Adjustment schedules for firm sales customers (other than LVTSS) and interruptible customers, which schedules are attached to the Company's ACA filing.

**LACLEDE GAS COMPANY  
PRICE STABILIZATION FUND  
OVERALL COST REDUCTION INCENTIVE  
99/00 ACA PERIOD**

Maximum Recoverable Amount	\$4,000,000
Plus: Net Proceeds From Option Sales	\$19,914
(Less): Expenditures	(\$3,951,000)
Cost Reduction	\$68,914
Company Retention %	40%
	\$27,566

MIG