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December 2, 2002

Secretary of the Commission
Missouri Public Service Commission
200 Madison Street, Suite 100
P.O. Box 360
Jefferson City, Missouri 65102-0360

FILED³

DEC 02 2002

RE: *Laclede Gas Company*
Case Nos. GR-2001-387/GR-2000-622

**Missouri Public
Service Commission**

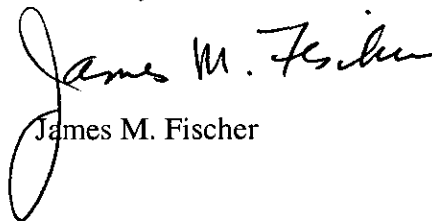
Dear Mr. Roberts:

Enclosed for filing in the above-referenced matter are the original and eight (8) copies of the **HIGHLY CONFIDENTIAL** Rebuttal Testimony of Steven F. Matthews, on behalf of Laclede Gas Company, and the **NONPROPRIETARY** original Rebuttal Testimony of Steven F. Matthews, on behalf of Laclede Gas Company. A copy of the Rebuttal Testimony of Steven F. Matthews has been hand-delivered or mailed this date to each party of record.

Also enclosed for filing in the above-referenced matter are the original and eight (8) copies of the Rebuttal Testimony of Michael T. Cline, on behalf of Laclede Gas Company. A copy of the Rebuttal Testimony of Michael T. Cline has been hand-delivered or mailed this date to each party of record.

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 Issues

Witness:

Steven F. Mathews

Type of Exhibit:

Rebuttal Testimony

Sponsoring Party:

Laclede Gas Company

Case No.:

GR-2001-387/GR-2000-622

Date:

December 2, 2002

FILED³

LACLEDE GAS COMPANY

DEC 02 2002

GR-2001-387/GR-2000-622

**Missouri Public
Service Commission**

REBUTTAL TESTIMONY

OF

STEVEN F. MATHEWS

NP

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 199-2000 Actual Cost) Case No. GR-2000-622
Adjustment)

AFFIDAVIT

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

Steven F. Mathews, of lawful age, being first duly sworn, deposes and states:

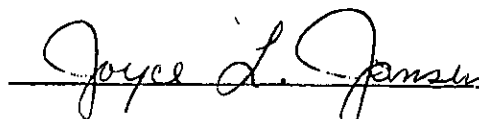
1. My name is Steven F. Mathews. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Assistant Vice President-Gas Supply of Laclede Gas Company.

2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony, including all 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.


Steven F. Mathews

Subscribed and sworn to before me this 29th day November, 2002.



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

REBUTTAL TESTIMONY OF STEVEN F. MATHEWS

1

2 Q. What is your name and business address?

3 A. My name is Steven F. Mathews and my business address is 720 Olive Street, St.
4 Louis, Missouri 63101

5 Q. Are you the same Steven F. Mathews who previously filed direct testimony on
6 behalf of Laclede Gas Company ("Laclede" or "Company") in this proceeding?

7 A. Yes, I am.

8

Purpose of Testimony

9 Q. What is the purpose of your rebuttal testimony?

10 A. The purpose of my rebuttal testimony is to respond to the direct testimony filed by
11 David M. Sommerer on behalf of the Staff of the Missouri Public Service
12 Commission ("Staff"). Specifically, I will explain how Mr. Sommerer has
13 attempted to rely on a generalized and often incorrect critique of the Price
14 Stabilization Program ("PSP" or "Program") to support his claim that the
15 Company should not be allowed to retain its claimed share of the hedging
16 proceeds that it generated under the Program. As I will discuss, this retrospective
17 critique is plainly inconsistent with the only factor that truly controls the outcome
18 of this issue -- namely, the specific terms of the PSP Tariff and Program
19 Description that were in effect at the time these transactions took place. Indeed,
20 throughout his testimony, Mr. Sommerer either ignores the clear and
21 unambiguous meaning of these approved provisions or attempts to define them
22 out of existence by suggesting an entirely new method for determining what

1 constitutes "savings" under the Overall Cost Reduction Incentive component of
2 the PSP. In addition to addressing this central issue, I will also briefly address
3 why I believe Mr. Sommerer has given a distorted and incomplete historical
4 assessment of the success that was achieved by Laclede for its customers as a
5 result of its hedging efforts under the PSP.

6 Q. Is rebuttal testimony being submitted by any other Laclede witness?

7 A. Yes. The issue of what the terms of the PSP Tariff and Program Description
8 mandate regarding the appropriate treatment of the approximately \$4.9 million at
9 issue in this case is also being addressed by Laclede witness Michael T. Cline.

10 **Treatment of Hedging Proceeds under PSP Provisions**

11 Q. Does Mr. Sommerer acknowledge in his direct testimony that the Company
12 achieved real financial gains for its customers as a result of its hedging efforts
13 under the PSP during the winter of 2000-2001?

14 A. Yes. At page 4 of his direct testimony, Mr. Sommerer acknowledges that the
15 Company achieved some \$24 million in financial gains under the Program during
16 the winter of 2000-2001, net of the approximately \$4 million dollar cost of the
17 Program.

18 Q. Does Mr. Sommerer dispute that all of these financial gains, with the exception of
19 the \$4.9 million at issue in this proceeding and the \$4 million that the Company
20 voluntarily contributed to funding the PSP in 2001-2002, have already been
21 flowed through to the Company's customers?

22 A. No. He neither disputes the fact that Laclede has already flowed through these
23 amounts to its customers nor that the Company requested Commission approval

1 to do so on an expedited basis back in the late winter of 2000-2001. Instead, he
2 simply disparages the magnitude of these ratepayer benefits by suggesting that
3 while this amount "seems significant" it is less than what customers might have
4 received had the Company not exercised its right to declare the Price Protection
5 Incentive component inoperable during the 2000-2001 ACA period.

6 Q. Do you believe this is a fair criticism?

7 A. No. Since the PSP explicitly contemplated and provided for this right, and since
8 no one, including the Staff, has ever challenged that it was properly exercised by
9 the Company, I believe that such criticisms are both unfair and inappropriate. As I
10 discuss later in my testimony, it is also difficult to give any credence to such
11 criticisms given the degree to which the PSP enabled the Company to produce
12 tens of millions of dollars more in financial benefits for its customers than would
13 have been the case had the Commission or the Company instead followed the
14 approach toward hedging that had been advocated by the Staff. While it is almost
15 always possible based on a hindsight review to envision circumstances under
16 which greater benefits could have been produced under a particular program,
17 those engaged in such speculations should at least acknowledge what results
18 would have been achieved had their own recommendations at that time been
19 followed.

20 Q. Does Mr. Sommerer assert in his testimony that the Company's exercise of its
21 right to declare the Price Protection Incentive inoperable during the 2000-2001
22 ACA period disqualifies it from retaining a share of the savings under the Overall
23 Cost Reduction Incentive component of the PSP?

1 A. No. Mr. Sommerer does suggest at pages 11-12 of his direct testimony that there
2 was a "link" between the Price Protection Incentive and the Overall Cost
3 Reduction Incentive and that, at least in his opinion, the latter component "made
4 no sense" once the Company opted out of the former component. He does not
5 claim, however, that the Company's exercise of its right to declare the Price
6 Protection Incentive inoperable for that year somehow disqualified Laclede from
7 being able to share in any savings achieved under the Overall Cost Reduction
8 Incentive. And for good reason. At the time the Commission decided this matter
9 it was very clear from the Company's brief, the Program Description and the
10 other materials that Laclede filed to comply with the Commission's Report and
11 Order in Case No. GO-98-484 (which had approved the PSP, with certain
12 modifications), that the only effect of invoking this right was to render the Price
13 Protection Incentive inoperable for that particular year. Contrary to Mr.
14 Sommerer's assertion, this result does "make sense," because even though the
15 Company could no longer benefit from the Price Protection Incentive, it was still
16 incented to reduce the overall cost of price protection to its customers.

17 Q. Did the Staff review the Program Description at the time it was filed in
18 compliance with the Commission's Report and Order in Case No. GO-98-484?

19 A. Yes. The Staff reviewed it and, as shown in Rebuttal Schedule 1 to my testimony,
20 filed a memorandum with the Commission stating that the PSP Program
21 Description, as well as the PSP Tariff filed by the Company, were in compliance
22 with the Commission's Report and Order in Case No. GO-98-484. Staff's
23 concurrence in the PSP Tariff and Program Description was also noted by the

1 Commission in its July 21, 1999 Order Approving Tariff Pursuant to Commission
2 Order and Closing Case. As the Commission stated at page 1 of that Order:

3 Staff indicated that it has reviewed Laclede's revised program
4 description, and its tariff sheets with substitutions, and is of the
5 opinion that they are in compliance with the Report and Order
6 issued on June 15, 1999. Therefore Staff recommended that the
7 tariff sheets filed on June 25, 1999, and as substituted on July 6,
8 1999 and July 12, 1999, be approved.
9

10 Q. Was the portion of the PSP Tariff and the Program Description relating to the
11 Company's right to declare the Price Protection Incentive inoperable altered at
12 any time prior to when the hedging transactions under review in this proceeding
13 took place?

14 A. No. As Mr. Sommerer notes at page 9 of his direct testimony the Staff, Office of
15 the Public Counsel and the Company did submit a Unanimous Stipulation and
16 Agreement in Case No. GO-2000-394 on September 1, 2000 in which they
17 recommended a relaxation of the PSP's then existing requirement that the
18 Company procure price protection equal to 70% of its flowing winter supplies.
19 As shown in Schedule 4 to Mr. Sommerer's direct testimony, however, that same
20 Unanimous Stipulation and Agreement also contained a provision making it clear
21 that except for this one change, all other provisions of the PSP would remain in
22 full force and effect. Specifically, paragraph 4 of the Stipulation and Agreement,
23 which can be found on page 4 of Schedule 4 to Mr. Sommerer's direct testimony
24 stated the following:

25 4. Since the Parties were unable to agree on the Company's
26 other proposed revisions to the PSP, all remaining provisions of
27 the existing PSP currently in effect will remain in full force and
28 effect.
29

1 Q. In view of this history, what do you make of Mr. Sommerer's comments that the
2 Overall Cost Reduction Incentive "made no sense" once the Company opted out
3 of the Price Protection Incentive?

4 A. Since this observation can have no bearing on the Company's clear right, pursuant
5 to the PSP Tariff and Program Description, to retain a share of the savings
6 achieved under the Overall Cost Reduction Incentive, I can only assume that they
7 are being made in an effort to provide some kind of support for Staff's proposed
8 method for determining what that share of savings should be.

9 Q. What method are you referring to?

10 A. At page 13 of his direct testimony, Mr. Sommerer describes what, in his opinion,
11 is "... an objective way for determining if Laclede should share in savings that is
12 consistent with the tariffs and the program description ..." In doing so, he
13 suggests that savings under the Overall Cost Reduction Incentive may only be
14 shared by Laclede if "the overall early trading was indeed "favorable" and
15 resulted in savings, not merely "proceeds" that exceed **-----**."

16 In short, Mr. Sommerer appears to be suggesting that so long as the Company
17 achieved "overall" savings by engaging in intermediate trading activity (i.e.
18 selling call options prior to the last three days of when they would otherwise
19 expire) versus holding such options to their expiration, that it should be permitted
20 to retain a share of such savings.

21 Q. Do you agree with this method for determining whether the Company should be
22 permitted to retain a share of the savings that it achieved under the Overall Cost
23 Reduction Incentive?

1 A. It doesn't really matter whether I agree with it or not since the method for
2 determining whether there were savings under the Overall Cost Reduction
3 Incentive and for determining what share of those savings should be retained by
4 the Company was set out in the PSP Tariff and Program Description. As Laclede
5 witness Cline demonstrates in his rebuttal testimony, the amounts retained by the
6 Company were calculated in strict compliance with that method which, contrary
7 to Mr. Sommerer's assertion, is set out in the PSP Tariff and Program Description
8 in a clear and understandable manner. In view of this, there is no need and
9 certainly no basis for adopting a new, retrospective method for making such
10 determinations as Mr. Sommerer has proposed in his direct testimony. And even
11 if there was, it would certainly not be the kind of inconsistently applied, selective
12 and wholly arbitrary method that Mr. Sommerer has proposed.

13 Q. Please explain what you mean.

14 A. Although Mr. Sommerer gives the impression in his direct testimony that he is
15 proposing a method that would enable Laclede to retain a share of the cost savings
16 achieved as a result of the Company's intermediate trading activity, his method
17 actually does no such thing. As I indicated in my direct testimony, Mr.
18 Sommerer's method, as set out in Schedule 9, simply ignores the fact that the
19 Company's intermediate trading activities produced additional funds which were
20 then used to finance additional option purchases. Mr. Sommerer's analyses
21 assumes the Company could have bought and held all of these positions, i.e. the
22 original positions and the re-traded positions, until expiration. The end result is a
23 savings calculation that gives a false, incomplete and totally arbitrary assessment

1 of what the impact of the Company's intermediate trading activity really was on
2 the level of savings achieved under the Overall Cost Reduction Incentive.

3 Q. Can you provide an example of what you mean?

4 A. Yes. It is abundantly clear that had Laclede *not* engaged in any intermediate
5 trading activity during the ACA period, but instead simply spent the \$4 million in
6 Program funding on call options that it then held until expiration, it would have
7 achieved millions of dollars *less* in savings than it actually did. Simply put, by
8 selling options "early" (i.e. by engaging in intermediate trading activity where
9 options were sold prior to the last three business days before they expired) the
10 Company was able to generate additional proceeds that could then be used to
11 purchase even more call options. The end result is that customers ultimately
12 received millions of dollars more in additional savings than they would have had
13 the Company just stood still and not engaged in such intermediate trading activity.

14 Q. Does Staff's method recognize the impact of this additional funding that was
15 generated by the Company's intermediate trading activity on the ultimate level of
16 savings that was achieved under the Overall Cost Reduction Incentive?

17 A. No, Staff's method simply takes this additional funding for granted as if it was
18 found money rather than the result of the Company's successful efforts to
19 purchase and sell options on favorable terms. Indeed, rather than attempt to
20 replicate the results that would have been achieved had the Company stopped all
21 trading activity once it had spent the \$4 million authorized under the Program, the
22 Staff's analysis simply assumes that the Company had nearly \$9 million to spend
23 on call options. The difference -- nearly \$5 million, is money that would not have

1 been available but for the Company' intermediate trading activity. The Staff then
2 proceeds to penalize the Company because some of the call options that were
3 purchased with this additional funding rose in value after they were sold.
4 Moreover, the Staff does so without any acknowledgement in its calculations that
5 many of these options, as well as other options that declined in value after they
6 were sold by the Company, could have never been purchased at all but for the
7 funding generated by the Company's intermediate trading activity.

8 Q. Have you prepared a schedule that shows this?

9 A. Yes. Rebuttal Schedule 2 to my testimony shows how Staff has assumed a level
10 of funding for options purchases that is substantially in excess of the \$4 million
11 dollars authorized under the Program and that could have only been generated as
12 a result of the Company's intermediate trading activity. Specifically, Rebuttal
13 Schedule 2 replicates the relevant portions of Schedule 9 to Mr. Sommerer's
14 testimony. In Schedule 2 I have circled the amounts that Mr. Sommerer identified
15 on each page of his Schedule as the "cost" of purchasing the options that were
16 acquired by the Company. As shown in Rebuttal Schedule 2, Mr. Sommerer
17 identifies a cost of \$1,025,650 for the option purchases reflected on page 1 of his
18 schedule, a cost of \$2,664,150 for the option purchases reflected on page 2, a cost
19 of \$1,629,800 for the option purchases reflected on page 3, and a cost of
20 \$3,244,450 for the option purchases reflected on page 4. Finally, on page 5 of his
21 Schedule, Mr. Sommerer identifies a cumulative cost for all of the Company's
22 option purchases of \$8,922,450 -- a funding amount that is more than double the

1 \$4 million funding level that was actually authorized under the Program and that
2 was only available to the Company due to its intermediate trading activity.

3 Q. What conclusions do you believe the Commission should draw from this?

4 A. Despite the impression given by Staff in its direct testimony, its method does not
5 provide an objective, let alone an accurate or reasonable, assessment of the
6 “overall” savings that were, in fact, achieved by the Company as a result of its
7 intermediate trading activity. To the contrary, Staff’s method is specifically
8 designed to understate those savings by selectively ignoring the critical role that
9 the Company’s intermediate trading activity played in generating the funds that
10 were necessary to even purchase the options that Staff, based on its retrospective
11 review, now suggests could have been sold later for even greater gains. In
12 addition to failing the test of reasonableness, as Staff itself has defined it in its
13 testimony, such a method is plainly inconsistent with the PSP Tariff and Program
14 Description. It, together with Staff’s proposed disallowance, should therefore be
15 rejected.

16 **Historical Assessment of the Success of the PSP Program**

17 Q. You previously stated that Mr. Sommerer has given a distorted and incomplete
18 historical assessment in his testimony of the success that was achieved by Laclede
19 for its customers as a result of its hedging efforts under the PSP. Please explain
20 what you mean.

21 A. Mr. Sommerer devotes a significant portion of his testimony to criticizing the PSP
22 and disparaging the magnitude of the financial benefits that the Company
23 achieved for its customers under that Program during the ACA period. He also

1 speaks at length about the “guarantee” of price protection that was not provided
2 by the Company because of its decision to declare the Price Protection Incentive
3 of the Program inoperable during the ACA period. While irrelevant to the
4 specific matter at issue in this proceeding, all of this commentary seems designed
5 to give the impression that the PSP was a failure. I believe that is both an
6 incorrect and unfair impression. While Staff may wish to minimize the tens of
7 millions of dollars in real financial benefits that were produced by the Company
8 under the Program, the fact remains that those benefits far exceeded anything that
9 would have been produced for customers in either 2000-2001 or 2001-2002, if the
10 Company had adopted Staff’s approach toward hedging.

11 Q. Why do you say that?

12 A. The Commission should keep in mind that at the time the Company’s PSP
13 Program was approved the only alternative program being advocated by the Staff
14 was one in which no option purchases could be made by Laclede at strike prices
15 above \$4.00 per MMBtu. Since strike prices during the relevant portions of the
16 ACA period were always above this level, implementation of Staff’s
17 recommended approach rather than Laclede’s would have resulted in the
18 Company obtaining *no* price protection at all for its customers. Indeed, this is
19 essentially what happened to Missouri Gas Energy, who was operating at that
20 time under a program similar to the one that had been advocated by Staff.

21 Q. What about the 2001-2002 heating season?

22 A. Staff was a strong advocate in 2001-2002 of the view that utilities should fix
23 prices on a portion of their gas supply requirements. Rather than fix prices at that

1 time, however, Laclede took advantage of the call option price protection that it
2 had procured under the PSP (protection that I should note was twice as great
3 because of the Company voluntarily contributing a share of its PSP savings to the
4 Program's funding) to defer such action pending an anticipated decline in natural
5 gas prices. When those prices did, in fact, decline, the Company's approach saved
6 its customers tens of millions of dollars in gas cost savings compared to what the
7 result would have been had it followed Staff's suggestions. In view of these
8 considerations, I believe Staff's criticisms of the Company's hedging efforts are
9 misplaced and inappropriate.

10 Q. But wouldn't the result have been even better for customers if the Company had
11 not "... opted out of the "guarantee part" of the PSP and "watched prices
12 continue to escalate in the late spring of 2000" as Mr. Sommerer suggests at page
13 3 of his testimony?

14 A. Once again, such criticisms are truly unfair. The Price Protection Incentive was
15 designed to establish its primary price benchmarks (i.e. the Target Strike Price
16 ("TSP") and Catastrophic Price Level ("CPL")) in March of each year because
17 March has historically been a low price month. However, prices for call options
18 during March, 2000 were not even at historically average levels, let alone
19 historically low levels. Instead, they were at historically high levels; a
20 circumstance that resulted in a TSP and CPL of \$4.70 and \$5.20 respectively.
21 The fact that prices for call options were well above their historical average
22 counseled against any immediate or significant purchase of such options.
23 Furthermore, the Energy Information Administration ("EIA") and respected

1 analysts such as Goldman Sachs and Risk Management Inc. ("RMI") were
2 claiming that natural gas prices were overvalued and should decline in the near
3 future. As a result, the Company thought it would be imprudent to pay for price
4 protection at a time when prices were at historically high levels particularly in
5 light of the government's and analysts' declining price projections. The fact that
6 the Company had recently been criticized by Staff for purchasing options during
7 the preceding year of the PSP at strike prices that were well below the prices
8 being experienced in March 2000 also played a role in the Company's
9 deliberations. As it turns out, prices did not decline. The market changed
10 radically during the 90 days immediately following the establishment of the TSP.
11 As a result, the Company had determined it was necessary to purchase options at
12 strike prices above the CPL. It was unfortunate, but the Company had to invoke
13 Section 2.B.ii. of the Price Protection Component of the Program which protected
14 the Company from financial disaster during a radical change in the market.

15 Q. When did the Company notify the Commission that it was exercising its right to
16 declare the Price Protection Incentive component of the Program inoperable?

17 A. The Company notified the Commission by letter dated June 1, 2000.

18 Q. Did the Company sit around and just watch prices increase as Mr. Sommerer
19 suggests?

20 A. Of course not. The Company was closely monitoring the market. In fact, the
21 Company decided in early May that it should get some coverage, regardless of
22 analysts projections, even if it meant needing a later market correction to cover
23 the program volumes for the authorized \$4 Million. However, shortly after the

1 Company was able to fill its first significant option order, the market went on
2 another significant price run through the end of May. At this point, it was evident
3 that the Company would have to purchase options with strike prices at levels
4 significantly above the CPL.

5 Q. On page 3, lines 20 through 23, Mr. Sommerer states "Laclede subsequently
6 negotiated a Stipulation and Agreement with the Staff and Office of Public
7 Counsel ("OPC") (Schedule 4) that allowed the Company to use its own
8 discretion in obtaining levels of coverage, including zero coverage". How long
9 after the Company notified the Commission that it was exercising its right to
10 declare the Price Protection Incentive component of the Program inoperable was
11 the Stipulation and Agreement ("S&A") filed?

12 A. The Stipulation and Agreement was filed with the Commission on September 1,
13 2000.

14 Q. What was the Company doing between June 1, 2000, when the Company notified
15 the Commission, and September 1, 2000, when the S&A was filed?

16 A. The Company met and provided information to both the Staff and Public Counsel
17 in an effort to increase the level of funding for acquiring price protection and to
18 authorize the use of other types of financial instruments.

19 Q. Why did the Company feel it was necessary to increase the level of authorized
20 funding and authorize the use of other types of financial instruments?

21 A. The market had continued to undergo changes never before experienced. As a
22 result, the \$4 Million of funding originally authorized was not sufficient to
23 purchase adequate call option protection with reasonable strike prices.

1 Q. Did the Company file for increased funding with the Commission?

2 A. Yes. After meeting several times with the Staff and Public Counsel regarding
3 Laclede's concerns, the Company filed on July 7, 2000 to make temporary
4 revisions to the PSP for the 2000 winter heating season. More specifically,
5 Laclede requested to increase the level of funding from \$4 Million to \$10 Million,
6 eliminate the requirement to obtain financial protection on 70% of normal flowing
7 supply requirements for the months of November through March, eliminate
8 individual monthly requirements, and use other financial types of hedging
9 instruments.

10 Q. Were these requests approved by the Commission?

11 A. As a result of the opposition filed by Staff and Public Counsel, the Company was
12 unable to obtain a consensus on its proposals. Instead, the Company withdrew its
13 proposal and joined Staff and Public Counsel in filing the S&A which eliminated
14 the requirement to obtain financial protection on 70% of normal flowing supply
15 requirements for the months of November through March and eliminated
16 individual monthly requirements. Unfortunately, the S&A did not increase the
17 level of funding to be used to obtain price protection.

18 Q. What significance does all of this have in terms of Mr. Sommerer's assessment of
19 the PSP and the actions taken by the Company?

20 A. I believe it just underscores the degree to which Mr. Sommerer has relied on
21 improper hindsight in his testimony. Because only with hindsight could one
22 suggest that the Company should have ignored historical pricing considerations,
23 and the recommendations and studies of EIA and various analysts which

1 concluded prices were overvalued, and nevertheless purchased all of its price
2 protection immediately before prices increased further. This is counter to Staff's
3 claim that Staff only judges the Company's actions based on the information the
4 Company had available to it at the time decisions were made. Based on the
5 market analysis that was available at the time, it made no sense for the Company
6 to purchase its price protection at that time.

7 Q. Did Staff's actions at the time indicate that Staff believed prices would increase to
8 astronomical levels during this time?

9 A. No, I do not believe so. Had Staff thought prices were on the rise, it is difficult to
10 understand why Staff would have opposed, as it did, the Company's request to
11 increase the authorized amount for price protection from \$4 Million to \$10
12 Million. In light of these considerations, I believe Staff's criticism are misplaced
13 and should not be allowed to detract from the remarkable success that was
14 achieved by the Company under the PSP.

15 Q. Does this conclude your rebuttal testimony?

16 A. Yes, it does.

MEMORANDUM

FILED

JUL 12 1999

TO: Missouri Public Service Commission Official Case File,
Case No. GO-98-484, File No. 9901023, Laclede Gas Company, Missouri Public Service Commission

FROM: Henry E. Warren, Gas Department - Tariffs/Rate Design *HEW* *MHW* *for*

W. Henderson *7-12-99*
Utility Operations Division/Date

Thomas R. Schwanz, Jr. *7/12/99*
General Counsel's Office/Date

SUBJECT: Staff Recommendation on Tariff Sheets Filed to Comply with the Commission's
REPORT AND ORDER, Issued June 15, 1999.

DATE: July 12, 1999

On June 25, 1999, Laclede Gas Company (Laclede or Company) of St. Louis, Missouri filed tariff sheets with an effective date of July 26, 1999. The purpose of this filing is to comply with the Missouri Public Service Commission's (Commission) REPORT AND ORDER (Order), issued on June 15, 1999. Also, on June 25, 1999, Laclede filed a motion requesting the tariff sheets be allowed to become effective on less than thirty day's notice, however the Company did not request a specific date on which the filing should become effective. The Company stated its good cause as having sufficient time to procure prospective financial instruments, on the most favorable terms possible for its customers. On July 6, 1999, and again on July 12, 1999, Laclede filed substitute tariff sheets to incorporate changes suggested by the Commission's Staff (Staff).

The Commission's Order granted Laclede's request to extend a Price Stabilization Program (PSP or Program) as amended by Alternative Plan B and including the following additional changes proposed in Laclede's posthearing briefs:

- 1) A revision to its method for calculating the TSP;
- 2) A modification in the sharing mechanism between Laclede and its customers, and;
- 3) A provision specifying that the Commission retain the right (but not the obligation) to review the Program annually and, if necessary, revise it to correct any major deficiencies on or before February 15 of each year on the program.

Staff has reviewed the Company's revised Program description and the tariff sheets filed by Laclede and is of the opinion that they are in compliance with the Order issued on June 15, 1999. Therefore, Staff recommends that the following tariff sheets filed on June 25, 1999, and as substituted on July 6, 1999 and July 12, 1999, be approved.

P.S.C. MO. No. 5 Consolidated

Second Revised Sheet No. 28-e, Cancelling First Revised Sheet No. 28-e

Original Sheet No. 28-f

Original Sheet No. 28-g

MO PSC Case No. GO-98-484

OFFICIAL CASE FILE MEMORANDUM

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Copies: Director - Utility Operations Division
 Director - Research and Public Affairs Division
 Director - Utility Services Division
 General Counsel
 Manager - Procurement Analysis Department
 Manager - Gas Department
 Michael Cline, Manager - Tariff and Rate Administration (Laclede)
 K. J. Neises - Senior Vice President (Laclede)
 Michael C. Pendergast, Associate General Counsel (Laclede)
 Office of the Public Counsel

REPLICATION OF STAFF'S ANALYSES ILLUSTRATING A

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