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June 12, 2001

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FILED³

JUN 12 2001

Missouri Public
Service Commission

RE: Case No. GT-2001-329

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and eight (8) conformed copies of the **STAFF STATEMENT OF POSITION ON ISSUES**.

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,

David A. Meyer
Associate General Counsel
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DAM/lb
Enclosure
cc: Counsel of Record

FILED³

JUN 12 2001

Missouri Public
Service Commission

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's Tariff)
Filing to Implement an Experimental Fixed Price)
Plan and Other Modifications to Its Gas Supply)
Incentive Plan)

Case No. GT-2001-329

STAFF STATEMENT OF POSITION ON ISSUES

COMES NOW the Staff of the Missouri Public Service Commission ("Staff"), and respectfully states as follows:

1. On November 17, 2000, Laclede Gas Company ("Laclede") filed with the Missouri Public Service Commission ("Commission") tariff sheets setting forth modifications to its Gas Supply Incentive Program, which was scheduled to expire on September 30, 2001.

2. Subsequently, in response to the Staff's Motion to Suspend the tariff sheets, the Commission established this case to consider the future of the Gas Supply Incentive Program ("GSIP"). As part of this case, the Commission has ordered the parties to file a Statement of Positions.

3. Pursuant to the ordered procedural schedule, Staff has prepared the following statement of positions on the issues as described in the June 11, 2001 pleading entitled "Proposed List of Issues."

Position on Issues

- (A) Should an incentive mechanism similar in structure to the Company's current Gas Supply Incentive Plan ("GSIP"), an alternative incentive mechanism, or no incentive mechanism, be used in connection with the management of Laclede's gas supply and transportation assets on and after September 30, 2001?

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Staff's Position: Staff recommends that no plan similar to the current GSIP should be put in place through this proceeding, and suggests that a comprehensive gas purchasing plan would better serve ratepayers. Staff suggests an alternative plan in keeping with this principle. The staff believes that if the Commission finds an incentive is appropriate for gas procurement, then it should approve the Staff's ranking mechanism. If the Commission believes a Laclede type GSIP mechanism should be extended, then baselines should be incorporated as discussed in detail below. (Schallenberg Rebuttal, pp. 5-17, 27-30)

(B) If an incentive mechanism is used, what should be the terms of such a mechanism?

- (1) How should Laclede's gas supply commodity and demand costs be incorporated into the structure?

Staff's Position: Staff recommends the demand cost benchmark to be set at 1 cent, and that sharing under this mechanism should be curtailed in months where the benchmark index price exceeds \$5.50. Also, Staff suggests that limitations on prudence reviews should be removed from current tariffs. (Sommerer Rebuttal, pp. 14-15)

- (2) What provision, if any, should be made for the use of fixed price contracts and/or instruments?

Staff's Position: Staff believes that the fixed price mechanism should be eliminated from any incentive plan. (Sommerer Rebuttal, p. 8)

- (3) How should firm transportation pipeline discounts be incorporated into the incentive mechanism?

Staff's Position: For discounts other than MRT, Staff recommends a rebasing above the current baseline of \$13,000,000 and that the sharing percentage be set at 5%. As for the MRT agreement, Staff recommends that no sharing be allowed for this aspect. If sharing is allowed, the MRT discounts should also be limited to 5% sharing and restrictions that limit savings calculations to cost reductions greater than current contract levels and non-system wide discounts. (Sommerer Rebuttal, pp. 15-16)

- (4) How should pipeline mix be incorporated into the incentive mechanism?

Staff's Position: Staff recommends the sharing percentage for pipeline mix should be set at 5%, and that no sharing should begin until Laclede has achieved a baseline of \$1,917,000 in savings within the pipeline mix incentive framework. (Sommerer Rebuttal, pp. 16-17)

- (5) What treatment should be afforded to capacity release credits or revenues?

Staff's Position: Staff believes Laclede should achieve a base-line level of \$1,750,000 before it is entitled to share in the capacity release revenues. Staff also proposes to change the sharing percentage to 10% for credits above the baseline. (Sommerer Rebuttal, pp. 17-18)

- (6) What treatment should be afforded to revenues from off-system sales?

Staff's Position: Staff recommends the inclusion of off-system sales margins in an overall GSIP earnings cap. Staff also suggests that a base-line level should be developed for off-system sales, incorporating off-system sales in the GSIP. An adjustment would be made in the ACA process to reflect

the \$900,000 already embedded in base rates. (Sommerer Rebuttal, pp. 17-18)

- (7) How should any savings or revenues associated with these components be determined and allocated between Laclede and its customers and what role, if any, should baselines play in that process?

Staff's Position: See the responses to issues (3), (4), (5), and (6), which discuss baselines for each relevant component.

- (8) Should an earnings cap be placed on the savings and revenues retained by Laclede?

Staff's Position: Staff believes an earnings cap is necessary to account for unexpected windfalls and recommends a \$9,000,000 cap. (Schallenberg Rebuttal, p. 33; Sommerer Rebuttal, p. 18)

- (9) Should a specific term for the incentive mechanism be established?

Staff's Position: Staff recommends that the term of any incentive plan established by this case should be one year, in order to permit modifications needed due to market, management philosophy, and gas supply options, and in order to allow the incorporation of recommendations from the Commission's Natural Gas Commodity Price Task Force established in Case No. GW-2001-398. (Schallenberg Rebuttal, p. 32)

- (10) How should bundled sales and transportation contracts be treated?

Staff's Position: Staff suggests that the existing tariff addresses this issue for the limited purposes of this case, and has not filed testimony to address the issue.

- (C) If an incentive mechanism is not used, what alternative can or should be implemented in its place?

Staff's Position: The Staff recommends a comprehensive gas purchasing plan in lieu of incentive. (Schallenberg Rebuttal, pages 18 to 30.) The focus of such a plan is the overall delivered cost of a reliable gas supply. The plan must address a myriad of factors, including weather impact, commodity cost and transportation, storage, use of financial hedges, and fixed price and index priced supply decisions. (Schallenberg Rebuttal, pages 20 to 23.) Staff proposes three components: a coordinated gas purchase plan (Schallenberg Rebuttal, pp. 23-24); documentation and reporting process (Schallenberg Rebuttal, pp. 24-25); and regulatory review procedure (Schallenberg Rebuttal, pp. 25-27).

- A. The coordinated gas purchase plan begins with identification of specific goals to be achieved, e.g., an expected delivered cost of gas. The second element is identification of the demand scenario that must be met, including specification of significant assumptions.
- B. The documentation and reporting process begins with the LDC submitting its supply plan in early January, with Staff, OPC, and other parties reviewing and identifying concerns to the LDC by March 1. This alerts the company early in the process of possible concerns, so that the company can document its responses to the concerns. Reliability aspects of the

plan will be included. The process provides for reporting and monitoring during the year. (See Sommerer Rebuttal)

C. Regulatory review will initially be similar to the current ACA/PGA process.

As the parties gain experience the contemporaneous documentation and communication should greatly ease the ACA process.

Staff's proposed procedures should meet the needs of all parties – Commisison, LDCs, OPC, and Staff – much better than the current system.

Respectfully submitted,

DANA K. JOYCE
General Counsel

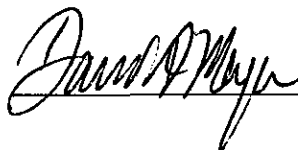


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**ATTORNEY FOR THE STAFF OF THE
MISSOURI PUBLIC SERVICE COMM'N**

Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 12th day of June, 2001.



**Service List for
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Verified: June 12, 2001 (lb)**

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