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Missouri Public
Service Commission

The Honorable Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102-0360

Re: Case No. GT-2001-329

Dear Judge Roberts:

Enclosed for filing in the above-referenced matter please find the original and eight copies of a Statement of Position of Laclede Gas Company.

Would you please see that this filing is brought to the attention of the appropriate Commission personnel.

Thank you.

Sincerely,

NEWMAN, COMLEY & RUTH P.C.

By: Robert K. Angstead
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RKA:ab
Enclosure
cc: Doug Micheel, Office of Public Counsel
Thomas R. Schwarz, Jr., General Counsel's Office
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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

STATEMENT OF POSITION
OF LACLEDE GAS COMPANY

COMES NOW Laclede Gas Company ("Laclede" or "Company") pursuant to the Commission's February 15, 2001, *Order Adopting Procedural Schedule and Further Suspending Tariff*, as amended, in the above-captioned case and submits the following Statement of Position:

(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?

Laclede believes that an incentive mechanism similar in structure to the Company's current GSIP, but with modifications designed to address the concerns of other parties, should continue to be used in connection with the management of its gas supply and transportation assets on and after September 30, 2001. As a result of the GSIP, and the Company's superior performance thereunder, the Company has achieved tens of millions of dollars in net benefits for its customers during the nearly five years that the Plan has been in effect. Continuation of the GSIP will enable the Company to continue to achieve such benefits for all of its customers as well as provide an additional source of energy assistance funding for the Company's most vulnerable customers. As proposed and modified by Laclede, the GSIP will also ensure the Company's ability to use fixed price instruments for a portion of its customer's gas requirements this winter,

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thereby affording additional protection from potential price spikes in the wholesale cost of gas. Finally, continuation of the GSIP is both necessary and fair in light of the significant financial risks and unrecognized costs imposed on the Company as a result of its merchant function, including costs incurred to provide a safety net for the Company's most vulnerable customers and to allow customers to spread out their payments for natural gas service over many months. Laclede would note that the Commission has previously determined that the GSIP is reasonable and in the public interest. See ***Re: Laclede Gas Company,*** Case No. GT-99-303, *Report and Order* (September 9, 1999). The lawfulness and reasonableness of incentive mechanisms similar to the GSIP have also been recognized and upheld by Missouri courts. ***Midwest Gas Users' Association v. Public Service Commission,*** 976 S.W.2d 470 (Mo.App. 1998).

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

It is Laclede's position that the GSIP should be structured in the following manner:

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

It is Laclede's position that no change should be made to the existing treatment of gas supply demand costs under the GSIP, except for the modifications relating to the Company's proposal to adopt uniform sharing percentages that increase the customer's share of the overall benefits achieved under the GSIP. Laclede does not object, however, to the proposals of other parties to terminate the commodity portion of the gas procurement component of the GSIP. Laclede also is willing to subject its gas procurement actions to prudence reviews in the future, except for those actions covered by the demand cost benchmark and those relating to the level and cost of financial instruments procured by the Company.

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

It is Laclede's position that it should be authorized to obtain fixed price financial instruments equal to 10 Bcf of its gas requirements for this winter and that its procurement of fixed price financial instruments after this winter should be governed by a modified version of Public Counsel's proposal in this case relating to the use of such instruments. Under that modified version, the Company would retain 10% of the gains or absorb 10% of the losses associated with the use of such fixed price instruments subject, respectively, to the overall GSIP cap on the level of savings and revenues that may be retained by the Company and a $1 million limit on losses.

(3) **<u>How should firm transportation pipeline discounts be incorporated into the incentive mechanism</u>?**

It is Laclede's position that the firm transportation discount component of its GSIP should not be changed, except for the modifications relating to the Company's proposals to adopt uniform sharing percentages that increase the customer's share of the overall benefits achieved under the GSIP, and to provide an additional source of energy assistance funding for low-income customers.

(4) **<u>How should pipeline mix be incorporated into the incentive mechanism</u>?**

It is Laclede's position that the pipeline mix component of the GSIP should not be changed, except for the modifications relating to the Company's proposals to adopt uniform sharing percentages that increase the customer's share of the overall benefits achieved under the GSIP, and to provide an additional source of energy assistance funding for low-income customers.

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

It is Laclede's position that the capacity release component of the GSIP should not be changed, except for the modifications relating to the Company's proposals to adopt uniform sharing percentages that increase the customer's share of the overall benefits achieved under the GSIP, and to provide an additional source of energy assistance funding for low-income customers.

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

Laclede has no objection to Staff's recommendation that off-system sales revenues be removed from base rates and addressed through the PGA, provided that such revenues are incorporated in the GSIP in accordance with the Company's proposals to adopt uniform sharing percentages that increase the customer's share of the overall benefits achieved under the GSIP, and to provide an additional source of energy assistance funding for low-income customers.

(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?**

It is Laclede's position that the Commission should adopt its proposal to adopt uniform sharing percentages that would significantly increase the customer's overall share of any benefits that may be achieved under the GSIP and decrease the amounts that may be retained by the Company. Laclede believes that this proposal adequately addresses the proposals by Staff and Public Counsel to establish new or higher baselines for various components of the GSIP and that such proposals should therefore be rejected.

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

Laclede does not object to implementation of the overall cap proposed by Staff and Public Counsel on the level of savings and revenues that may be retained by the Company under the GSIP, provided that the cap is increased by $1 million to accommodate the addition of off-system sales revenues to the GSIP.

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

Laclede does not believe it is necessary to establish a specific term for the incentive mechanism. Laclede also believes that concerns regarding the potential need to modify the GSIP in light of any initiatives that may be taken by the Commission as a result of the work of its Gas Cost Recovery Task Force can and should be addressed by specific language that permits such modifications to be made if and when the Commission finds they are appropriate.

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

It is Laclede's position that bundled sales and transportation contracts should continue to be treated for GSIP purposes in the same manner that they have been treated in the past and that no evidence has been presented in this case that would warrant a change in such treatment.

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

It is Laclede's position that neither Staff nor Public Counsel have proposed a workable incentive plan in this proceeding. Laclede also believes that they have failed to offer any reasonable or effective alternatives to the GSIP, as proposed by the Company.

WHEREFORE, for the foregoing reasons, Laclede Gas Company respectfully submits the foregoing Statement of Position.

Respectfully submitted,

Michael C. Pendergast by RKA

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that the foregoing Statement of Position has been duly served upon the General Counsel of the Staff of the Public Service Commission, Office of the Public Counsel and all parties of record to this proceeding by placing a copy thereof in the United States mail, postage prepaid, or by hand delivery, on this 12th day of June, 2001.

Robert K. Aregstead