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August 1, 2001

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*
Case No. GT-2001-329

FILED²
AUG 1 2001
Missouri Public
Service Commission

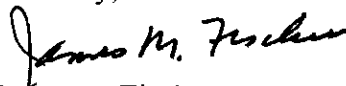
Dear Mr. Roberts:

Enclosed for filing in the above-referenced matter are the original and eight (8) copies of Laclede Gas Company's Reply Brief. A copy of the foregoing Reply Brief has been hand-delivered or mailed this date to each party of record.

Due to a computer problem, Laclede will be unable to file its Proposed Findings of Fact and Conclusions of Law today. On August 2, 2001, Laclede intends to file its motion for authority to file its Proposed Findings of Fact and Conclusions of Law out of time, and provide copies for the Commission and the parties of record at that time. Laclede regrets this delay, and apologizes for any inconvenience to the Commission or the parties.

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
Diana M. Vuylsteke
Dean L. Cooper
Thomas M. Byrne

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED²

AUG 1 2001

Missouri Public
Service Commission

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

REPLY BRIEF OF
LACLEDE GAS COMPANY

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August 1, 2001

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I.

INTRODUCTION

In their Initial Briefs, both Staff and Public Counsel urge the Commission to make a radical break from its innovative use of an incentive mechanism that the Commission has, on three separate occasions, unanimously found to be in the public interest. They have done so even though this same incentive mechanism has done nothing less than enable the Company to achieve tens of millions of dollars in benefits for its customers over the past five years; and nothing more than provide the Company with at least some chance during this same period to approach earning the returns on equity which this Commission has previously determined to be just and reasonable -- benefits that both the Company and its customers have come to rely upon. Moreover, they continue to oppose a continuation of Laclede's Gas Supply Incentive Plan ("GSIP"), even though it has been modified in response to their concerns and, as discussed at length in Laclede's Initial Brief, is the only mechanism presented in this proceeding that:

- has proven to be an effective mechanism for creating additional value for the Company's customers, as evidenced by the \$65 million in additional savings and revenues that the Company has been able to specifically quantify in this case as attributable to the GSIP and the Company's superior performance thereunder (Exh. 1, p. 5; Exh. 6HC, pp. 3-10, Schedule 1);
- offers a realistic, workable and concrete plan for obtaining additional supply diversity through the purchase of fixed price protection for the Company's customers in advance of the next winter heating season (*See* Exh. 2, pp. 20-25; Exh. 6HC, pp. 23-24);
- promises to provide a new and significant source of energy assistance funding for Laclede's most vulnerable customers (Exh. 2, pp. 8-11; Exh. 7, pp. 2-7);
- reasonably compromises the divergent views of the parties in this case in that it reflects the Company's substantial concessions to reduce its potential share of any benefits achieved under the GSIP, to subject its gas commodity costs to prudence reviews, and to fully or partially adopt other measures proposed by Staff and Public Counsel in this case (Exh. 2, pp. 3-26); and

- provides the Company with a realistic opportunity to offset some of the added costs and risks associated with performing its merchant function and providing the safety net that permits customers to receive critical gas services even when they cannot afford to pay for them, as well as a fighting chance to earn the returns on equity authorized by this Commission; (Exh. 2, pp. 27-30; Exh. 6HC, pp. 10-11, Schedule 1; Exh. 8, pp. 2-4).

As discussed below, neither Staff nor Public Counsel have offered anything substantive in their Initial Briefs to dispute these very real and very significant attributes of the Company's GSIP proposal or to explain why such attributes do not warrant its approval by the Commission. Nor have they offered any meaningful explanation as to how their own respective proposals would come anywhere close to achieving the level of consumer and other public policy benefits that have or will be produced by the Company's GSIP proposal if it is approved by the Commission.¹

II. ARGUMENT ON SPECIFIC 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?

In urging that the Commission discontinue the GSIP, Staff and Public Counsel suggest in their Initial Briefs that the amounts retained by the Company under the GSIP have been excessive. (Staff's Initial Brief, p. 3; Public Counsel's Initial Brief, p. 6). Moreover, Staff goes so far as to suggest that the very opportunity to earn money from its performance in the gas cost area is inappropriate because it may induce the Company to drain resources away from more important but less profitable work or diminish the Company's focus on reducing gas costs. (Staff's Initial Brief, p. 4.)

It is simply not possible to square such a claim, however, with the evidentiary record in this case. To the contrary, the sharing opportunities afforded the Company under the GSIP have always been modest as evidenced by the fact that the total share of such savings retained by the Company on an annual basis under the Plan have only amounted to a few percentage points of its overall gas costs.² And as modest as these opportunities are, the Company has proposed to limit them even further with its proposal in this case to significantly reduce the overall share of savings it may retain in the future under the GSIP and increase the share received by its customers. (Exh. 2, pp. 6-8).

In apparent recognition of how modest the Company's earnings opportunities under the GSIP are as percentage of its overall costs, Staff and Public Counsel focus their attention instead on the impact of the GSIP on the Company's overall earnings. Specifically, they point to the fact that over the past four years, GSIP earnings have made up anywhere from 12.8% to 22.9% (in fiscal year 2000) of the Company's overall earnings. (Public Counsel's Initial Brief, p. 4; Staff's Initial Brief, p. 3).

What neither Staff nor Public Counsel explain, however, is why such percentages should raise any concerns other than the ones expressed by the Company in this proceeding regarding its inability to earn, under current regulatory policies, the returns it has been authorized by the Commission in general rate case proceedings. (See Laclede's Initial Brief, pp. 29-32). For it is that inability to recover its base costs, as much as anything, that has

¹ Laclede will limit its Reply Brief to a discussion of Issue (A) since it believes that such discussion, together with the arguments set forth in its Initial Brief, adequately address the matters raised under issues (B) and (C).

² As Company witness Neises noted, based on gas cost at the time he filed his surrebuttal testimony, a \$10 million dollar cap on GSIP earnings would permit the Company to retain an amount equivalent to about 2% of its gas costs. (Exh. 2, p. 13). The most that the Company has ever earned under the GSIP in any one year was approximately \$8.5 million. (Exh. 18HC, Schedule 2). To put this 2% earnings retention amount into perspective, it should be noted that the amounts collected by the Company from its customers for gross receipts

driven up the relative percentage of earnings received by the Company.³ Moreover, Staff and Public Counsel conveniently overlook the fact that such GSIP earnings are only received by the Company if it is also producing even more significant benefits for its customers. Indeed, far from suggesting that the Company's retention of savings under the GSIP is too high relative to its other earnings, Staff's and Public Counsel's testimony in this case indicates that it may very well be too low. For both Staff and Public Counsel have repeatedly asserted in this case that the impact of earnings opportunities is to focus the Company's attention and resources on the areas from which such earnings can be derived. In fact, when it comes to the gas cost areas covered by the GSIP, Staff states at page 4 of its Initial Brief that because a significant amount of Laclede's income is tied to the GSIP, the:

"Commission would be justified in concluding that the company would place great emphasis and effort on maintaining this source of income in the most profitable manner possible -- and if resources were limited, the available resources would be routed toward this potential money-making enterprise rather than other areas that could benefit the consumer more and the company less."

Staff is, of course, absolutely correct when it states that such earnings opportunities serve to focus the Company's attention, as well as a portion of its limited resources, on the gas cost area. Staff is absolutely wrong, however, when it suggests that such resources could be better devoted to other areas that would benefit the consumer more and the Company less. After all, gas costs can account for up to 75% of the Company's overall costs (Exh. 24, Schedule 2, Chart 1) and, as the evidence in this proceeding shows, the Company can have a significant impact on those costs by taking measured risks, constantly striving for superior

taxes alone average approximately 6% of the customer's bill, or more than triple the amount that could potentially be retained by the Company under the GSIP. (Exh. 24, Schedule 1).

³ As shown on page 4 of Laclede witness Buck's surrebuttal testimony, even with the earnings from the GSIP, the returns realized by the Company were some 35 to 155 basis points below the level authorized by the Commission during the past three fiscal years; and without such GSIP earnings would have been 185 to 350 basis points below its authorized return on equity. (Exh. 8, p. 4).

performance, and devoting additional resources to achieving added efficiencies in this area. Under such circumstances, how can it possibly be excessive for the Company to derive between 14% and 23% of its earnings from activities that account for nearly 75% of its costs?

Indeed, if anything can be fairly characterized as excessive or extreme in this case, it is Staff's and Public Counsel's proposals to eliminate or modify the GSIP in a manner that would effectively preclude Laclede from making *any* earnings from its gas procurement and management activities. The end result of such an approach, of course, would be to limit the Company's income to only those earnings it can achieve in connection with its distribution functions, which account for only 20% or so of the customer's bill. (Exh. 24, Schedule 2, Chart 1). Given their own resource allocation theories, it is simply not tenable for Staff and Public Counsel to pretend that customers would somehow benefit from an approach that funnels all of the efficiency-inducing incentives applicable to the Company to those limited areas of its operations where cost savings opportunities are smallest, while reserving none of them for those areas where such opportunities are greatest.⁴

As discussed below, the remaining arguments made by Staff and Public Counsel in support of their respective recommendations to eliminate the GSIP are equally unsupported by the record in this case.

1. **The GSIP, as proposed by the Company, should be approved because it has proven to be an effective mechanism for creating additional value for the Company's customers from out-of-state sources.**

In its Initial Brief, Laclede discussed in detail the extensive evidence which had been presented in both this proceeding, and in Case No. GT-99-303, to specifically identify and

⁴ In contrast to the numerous cost savings opportunities and achievements that the Company has identified in this case in connection with the management of its gas supply assets (*See* Exh. 6HC, Schedule 1), neither Staff nor Public Counsel have identified a single cost savings opportunity on the distribution side of the Company's operations that would be fostered by their proposals in this case to redirect all financial incentives to that area.

quantify the benefits produced by the Company under the GSIP during the first four years of its operation. (Exh. 6HC, p. 4, Schedule 1). Altogether, this evidence showed that nearly \$65 million in added savings and revenues that had been made available for sharing with the Company's customers during the first four years of the GSIP's operation. (*Id.*).

Nowhere in their Initial Briefs do Staff or Public Counsel cite any evidence that would dispute either the magnitude or nature of these savings identified by the Company. Instead, they simply assume such savings away in a series of conclusory statements that have no foundation in the record. For example, at page 8 of its Initial Brief, Staff erroneously asserts "... that Laclede's current and proposed GSIP have not spurred any savings on the commodity cost of gas, yet have generated more than \$8,000,000 in some years in profit to Laclede." In support of this incorrect assertion, Staff cites to Schedule 2 to Mr. Sommerer's rebuttal testimony, which was received into evidence as Exhibit 18HC. Even a cursory review of that schedule, however, shows that it calculates gas supply savings under the GSIP in annual amounts ranging from \$4,950,671 to \$10,243,558. (Exh. 18HC, Schedule 1). In fact, in three out of the four years that the GSIP has been in effect, Staff's Schedule 1 shows that gas supply savings alone under the GSIP have either exceeded or nearly matched the entire level of savings that the Company was permitted to retain under all of the GSIP's components. (*Id.*).

In addition to this mischaracterization of its own witness' schedule, Staff's assertion also ignores the numerous examples of gas procurement and other GSIP savings that Laclede specifically identified in this case. (*See* Laclede's Initial Brief, pp. 4-8; 19-24). Indeed, the closest that Staff even comes to mentioning these savings is to observe at page 11 of its Initial Brief that:

neither Staff nor Public Counsel have used the prudence review process to challenge Laclede's actions to reduce supply reservation costs by contracting for less flexibility of its gas supply, to lock in levels of demand charges to reserve a majority of its gas supply portfolio over a multi-year period, ... and to engage in multi-month capacity releases.

Of course they haven't! Since each and every one of these actions resulted in substantial savings to Laclede's customers, (Exh. 6HC, pp. 3-10), there would be absolutely no conceivable reason why Staff, Public Counsel or anyone else for that matter would question their prudence. Setting aside that obvious truism, however, the real significance of this observation by Staff is its confirmation of the fact that rather than being able to challenge the magnitude and nature of these GSIP-related savings, the best that Staff can do is to acknowledge their existence and seek to use them to support its argument relating to the need to reduce prudence disincentives in the ACA review process.

Public Counsel's Initial Brief is equally devoid of any evidentiary citations which would dispute the level and nature of the savings that Company has been able to identify as being attributable to the GSIP and the Company's specific performance thereunder. For example, Public Counsel speculates at page 5 of its Initial Brief that since the Company believed that the actions which it took to produce the GSIP savings were the product of good and prudent business decisions at the time they were initiated, it would have undertaken them, and the risks they entailed, even in the absence of a GSIP since they obviously satisfied the Commission's prudence standard. Of course, those are very easy claims for Public Counsel to assert today now that it knows, based on the very kind of hindsight analysis that is presumably forbidden by the Commission's prudence standard, that such actions were ultimately successful in saving money for the Company's customers. As Mr. Jaskowiak testified, however, at the time the Company made such decisions and took such actions, there

were no guarantees that the risks being undertaken in doing so would ultimately pay off in greater savings for the Company and its customers. (Tr. 849-850). Moreover, given the examples that have been cited in this case of situations where Staff has inappropriately used hindsight analysis to question the prudence of the Company's actions (see Tr. 406-408). Laclede submits that, absent the GSIP, it would have had every reason to fear a potential prudence disallowance had its actions produced unfavorable results.⁵

2. **The GSIP, as proposed by the Company, should be approved because it is the only mechanism proposed in this proceeding that offers a realistic, workable and concrete plan for obtaining fixed price protection for the Company's customers in advance of the next winter heating season.**

In its Initial Brief, the Company explained why its fixed price proposal in this case was the only mechanism that had been presented in this case that offers a realistic, concrete, and workable plan for obtaining fixed price protection for Laclede's customers in advance of the winter heating season. (Laclede's Initial Brief, pp. 24-27; 35-38). In challenging that assertion, Staff and Public Counsel devote a substantial portion of their Initial Briefs to criticizing every effort the Company has made in that regard. Specifically, they criticize the GSIP's existing gas procurement benchmark and its limitations on prudence reviews, even though the Company has proposed to eliminate this feature of the GSIP in this case. (See e.g. Public Counsel's Initial Brief, p. 15; Staff's Initial Brief, p. 8). They note Laclede's departure from its initial fixed price proposal in this case, even though the Company took such action in response to their concerns that its initial proposal might not trigger next winter. (Public

⁵ Public Counsel also asserts at pages 4-5 of its Initial Brief that a number of the actions which the Company took to produce these savings had been undertaken, in one form or another, prior to the GSIP. Such assertions, however, completely ignore both the qualitative and quantitative change in the nature of these actions once the GSIP went into effect. Whether it be the significant change in the Company's willingness to make multi-month capacity releases at less than the pipeline's maximum rate (Tr. 852), or the quantum increase in the level of demand charges that the Company was willing to lock-in after the GSIP went into effect (Tr. 631), there is simply no valid comparison to be made based on the evidence in this case between the actions taken by the Company prior to the GSIP and those taken following its implementation.

Counsel's Initial Brief, p. 7). Finally, lest they ever be accused of seeing a shred of merit in something the Company has proposed, Staff and Public Counsel criticize this latter proposal as well. (Public Counsel's Initial Brief, p. 11-12; Staff's Initial Brief, pp. 9-10).

The Company freely admits that ever since it reached an agreement last April with Staff and Public Counsel to work on the development of a fixed price trigger as part of a multi-year incentive plan, it has struggled to develop an effective approach toward the acquisition of fixed price instruments that would be acceptable to all parties. While Laclede had no illusions that its persistent efforts to honor its commitments in this regard would be commended, it does not believe that they deserve the criticism and derision that have been leveled against them by Staff and Public Counsel. Indeed, such criticisms are particularly difficult to accept when they are raised by parties who have assembled such a poor track record in advising the Commission of what course of action on this critical issue will best serve the interests of utility customers.⁶

And it is clear from their Initial Briefs that they are repeating the same mistake here. Just as they did last summer, Public Counsel and Staff criticize the Company's fixed price proposal on the grounds that it constitutes some form of impermissible pre-approval. As Mr. Neises clearly explained, however, all the Company seeks from the Commission is authorization to purchase fixed price instruments within a range that will bring reasonable diversity to its portfolio. (Exh. 2, p. 24-25). The specific level of fixed priced instruments to be purchased by the Company will be decided by it, not the Commission, with the certain

⁶ Whether it be their prior recommendation that the Company be precluded from purchasing call option prices above \$4.00 per MMBtu (Tr. 953) (a recommendation that, if adopted by the Commission would have made it impossible for the Company to achieve tens of millions of dollars in price protection benefits for its customers last winter); their steadfast opposition to Laclede's and Missouri Gas Energy's requests last summer for Commission authorizations to utilize market responsive financial instruments (Exh. 2, pp. 17-19); or their erroneous prediction that the \$3.75 per MMBtu trigger price in the Company's Experimental Fixed Price Plan

knowledge that for any subsequent winter the Company will be financially responsible for how good a job it does in balancing price and stability through its purchases. (*Id.*). Given the fact that virtually everyone in the country is preaching the virtues of diversity when it comes to managing price and stability in the acquisition of gas supplies and financial instruments, it is neither unreasonable nor inappropriate to ask that the Commission endorse a proposal that does nothing more than facilitate that goal. Indeed, if no one is willing to stand up and be counted on something as elementary as this principle, then why should anyone expect the Company to risk tens of millions of dollars to implement it?

All of which leads to the second major argument made by Staff and Public Counsel regarding the Company's proposal, namely, that it is not supported by adequate documentation. (Staff's Initial Brief, p. 9; Public Counsel's Initial Brief, p. 12). Such "concerns" are a complete red herring. As Staff's own witness Mr. Sommerer testified, in the past Staff itself has proposed parameters for financial instrument programs, such as the volumes to be covered, the costs to be incurred, and the price at which protection would be obtained, based primarily on its judgment of the need for price protection in a volatile marketplace for natural gas. (Tr. 951-955). Simply put, given the vagaries of the marketplace, there is no spreadsheet or analysis that is ever going to provide any definitive answers on whether locking in a specific level of fixed price instruments is optimal. All one can really do, as Staff has done in the past, is to apply reasoned judgment in asking whether it is in the interests of customers to have some minimum level of fixed price protection that, while bringing additional price stability, may also bring higher costs in the event prices decline during the winter months. Laclede would respectfully submit that it is not only

in this case would never be reached (Tr. 1065-66), the fact remains that Staff and Public Counsel have shown an uncanny knack for recommending exactly the wrong course of action.

proper but necessary for the Commission to play a role in making that threshold judgment. Moreover, it is a judgment that should not be difficult given the fact that every party in this case has endorsed the concept that fixed price instruments should be a part of the Company's portfolio. (See Public Counsel's Initial Brief, p. 13; Tr. 1060-1065). The only difference is that the Company has offered the only realistic roadmap for providing additional price protection for its customers this winter.⁷

3. **The GSIP, as proposed by the Company, should be approved because it is the only mechanism proposed in this proceeding that promises to provide a new and significant source of energy assistance funding for Laclede's most vulnerable customers.**

In its Initial Brief, Laclede discussed its proposal to contribute 1/7 of any savings or revenues it achieves under various components of the GSIP to the Dollar-Help Program in order to provide additional energy assistance to its most vulnerable customers. (Exh. 2, pp. 8-11). Depending on its success in producing such savings and revenues for all of its customers, Laclede also pointed out how such a proposal could generate up to \$1 million in increased funding for low-income energy assistance. (Exh. 6HC, Schedule 3).

At page 25 of its Initial Brief, Public Counsel claims that it "certainly supports helping Laclede's low-income customers" but then goes on to oppose the Company's efforts to do just that. In support of its position, Public Counsel argues that the Company does not need Commission approval to contribute GSIP earnings to the Dollar-Help Program. What the Company does need to make its proposal feasible, however, is Commission approval of a

⁷ The absence of any concrete assurances in Staff's Initial Brief that its integrated gas planning review process would provide Laclede with concrete assurances against prudence adjustments in the event the Company and Staff agreed on a level of fixed price purchases, together with Public Counsel's explicit reservation of its rights to pursue such adjustments (see Public Counsel's Initial Brief, p.27), confirms that such a process will do little, if anything, to facilitate the purchase of such instruments. And while Public Counsel mentions its 50/50 fixed price sharing proposal in its Initial Brief, it offers no explanation as to how it would encourage any meaningful purchase of such instruments given the magnitude of losses that could be incurred under such an approach.

workable GSIP that gives the Company a realistic opportunity to achieve the earnings necessary to make such contributions.

Public Counsel also suggests that the Commission should not approve the proposal because it has no power to enforce Laclede's commitment to make such contributions. That is simply not true. Laclede takes its commitment very seriously, and if it should ever fail to honor it, the Commission can and should take immediate steps to terminate the GSIP. Laclede is willing to provide whatever assurances the Commission requires that the Company would not oppose such an action because the Company is confident that there will never be a need for it.⁸

4. **The GSIP, as proposed by the Company, should be approved because: (a) it is the only mechanism proposed in this proceeding that provides the Company with any realistic opportunity to offset the added costs and risks associated with performing its merchant function and providing the safety net that permits customers to receive critical gas services even when they cannot afford to pay for it; and (b) its continuation is critical to the Company's financial health.**

In its Initial Brief, Laclede explained that continuation of the GSIP was appropriate because it gives at least some recognition to the risks and unrecovered costs that have been incurred by Laclede in connection with the merchant services it provides on behalf of its smaller customers, including costs incurred to provide its customers with the Commission-mandated safety net which permits them to receive critical natural gas service even when they cannot afford to pay for such services. (Exh. 8, p. 3). Laclede also noted that continuation of the GSIP had become critical to the Company's financial health. Specifically, the undisputed evidence in this case showed that even with the earnings realized by the

⁸Public Counsel also suggests that the Company's proposal will increase rates to all other customers by 5%. Such an assertion is also incorrect. As discussed at length in the testimony presented in this case, the earnings that will fund these contributions will only be achieved by the Company if it is simultaneously achieving gas

Company under the GSIP, Laclede was still unable to achieve its authorized rate of return in three out of the past four fiscal years, and without those earnings would have not even had enough income in the last two years to cover its dividend. (Exh. 8, pp. 4-5; Exh. 2, p. 5).

In their Initial Briefs, neither Staff nor Public Counsel take issue with the Company's analysis of the critical role played by the GSIP in maintaining the Company's financial health.⁹ Instead, they simply ignore it or suggest that such considerations should be ignored by the Commission. (Public Counsel's Initial Brief, p. 6). In doing so, Staff and Public Counsel seek to have it both ways. On the one hand they criticize the GSIP on the grounds that it permits the Company to make excess profits beyond those that are typically afforded in a base rate case proceeding (*see e.g.* Exh. 35, p. 3) and then on the other ask the Commission to shut its eyes when the Company demonstrates that the GSIP has not even permitted the Company to realize the authorized returns that were, in fact, established in those proceedings. Even worse, they suggest that by raising such considerations, the Company has somehow converted the GSIP into a mechanism where the Company is more focused on making profits to offset losses in other areas than in achieving gas cost savings. (*See* Public Counsel's Initial Brief, p. 6). Sheer logic, however, would suggest that to the extent GSIP earnings have become more important because of financial pressures caused by inadequate rate relief or other factors, the pressure on the Company to create the gas cost savings and revenues that make those earnings possible will also increase -- a result that will, if anything, work to the benefit rather than the detriment of Laclede's customers. The fact

cost savings and revenues for all of its customers under the GSIP. Under such circumstances, it is simply wrong to suggest that the Company's proposal will cost its other customers anything.

⁹ At pages 4-6 of its Initial Brief, Staff does assert -- erroneously in the Company's view -- that the Company's quantification of its unrecovered merchant costs for this past winter may be overstated or offset by other factors. When all is said and done, however, even Staff acknowledges that without income from the GSIP, the Company, as in previous years, would not have been in a position to earn its authorized return this year, despite

remains that notwithstanding Staff's and Public Counsel's efforts to obscure the significance of this issue, the Commission should not ignore the undisputed evidence on the record which shows that, in addition to benefiting customers, continuation of the GSIP is also warranted because such a result is fundamentally fair, and undeniably critical, to Laclede's shareholders.

5. **The GSIP, as proposed by the Company, should be approved because it is the only workable incentive plan that has been submitted in this proceeding.**

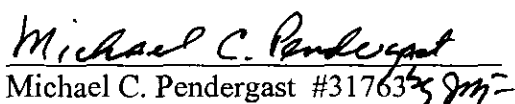
In its Initial Brief, Laclede discussed at length why its GSIP proposal was the only realistic and workable incentive plan that had been presented for the Commission's consideration in this proceeding. In doing so, the Company also explained why the "incentive" proposals, baseline and sharing recommendations, and other proposals submitted by Staff and/or Public Counsel were simply devices for effectively eliminating any workable incentives in the gas cost area. (See Laclede's Initial Brief, pp. 32-34; 40-47). The Company does not believe that Staff and Public Counsel have raised any arguments in their Initial Briefs regarding these matters that have not already been anticipated and addressed by Laclede. Laclede would, however, note that in seeking to criticize the studies and analyses that the Company relied on to support its position that the Commission should maintain the \$13 million baseline, which it established in Case No. GT-99-303 for the firm transportation discount component of the GSIP, neither Staff nor Public Counsel have cited one shred of evidence that would establish that such a baseline does not represent the average level of discounts being achieved by other shippers on the pipelines serving Laclede, or dispute Laclede witness Henning's exhaustive analysis that such discounts will be more difficult to negotiate in the future along the pipeline corridors serving Laclede. (See Exhibit 3).

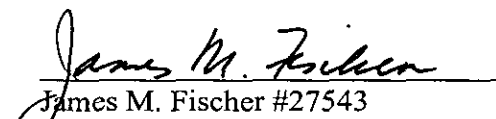
the extraordinarily cold weather conditions that were experienced in November and December. (Staff's Initial Brief, pp. 3-4).

III. CONCLUSION

For all of the foregoing reasons, as well as those set forth in its Initial Brief, Laclede respectfully submits that the Commission should approve the GSIP, as modified in accordance with the Company's recommendations in this case. Based on the record evidence presented in this case, it is clear that the Company's proposal is the only workable incentive plan that has been presented in this case. It is equally clear that its continuation, under the terms proposed by the Company, will bring lower, overall rates to all of Laclede's customers, provide special assistance to Laclede's most vulnerable customers, and help protect the Company's financial integrity. Perhaps most importantly, it will provide a framework for the effective acquisition and use of the kind of fixed price instruments that can help further stabilize customers' bills. The Company's GSIP proposal should, accordingly, be approved by the Commission.

Respectfully submitted,


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CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing Initial Brief of Laclede Gas Company has been hand-delivered or mailed by First Class, U.S. Mail, postage prepaid, this 1st day of August 2001, to:

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