Exhibit No.:
Issue: Price Stabilization Program
Witness: David M. Sommerer
Sponsoring Party: MoPSC Staff
Type of Exhibit: Direct Testimony
Case No.: GR-2001-387
Date Testimony Prepared: September 27, 2002

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

DAVID M. SOMMERER

LACLEDE GAS COMPANY

CASE NO. GR-2001-387

Exhibit No. 1 NP
Case No(s). GR-2001-387
Date 2-13-03 Rptr KF

Jefferson City, Missouri
September 2002

Denotes Highly Confidential Information

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BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's)
Purchased Gas Adjustment Factors To Be)
Reviewed In Its 200-2001 Actual Cost Adjustment)

AFFIDAVIT OF DAVID M. SOMMERER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

David M. Sommerer, being of lawful age, on his oath states: that he has participated in the preparation of the following Direct Testimony in question and answer form, consisting of 13 pages to be presented in the above case; that the answers in the following Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

David M. Sommerer

Subscribed and sworn to before me this 26th day of September 2002.

TONI M. CHARLTON NOTARY SEAL NOTARY PUBLIC STATE OF MISSOURI

TONI M. CHARLTON
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF COLE
My Commission Expires December 28, 2004

DIRECT TESTIMONY

OF

DAVID M. SOMMERER

LACLEDE GAS COMPANY

CASE NO. GR-2001-387

Q. Please state your name and business address.

A. David M. Sommerer, P.O. Box 360, Jefferson City, Mo. 65102.

Q. By whom are you employed and in what capacity?

A. I am the Manager of the Procurement Analysis Department with the Missouri Public Service Commission (Commission).

Q. How long have you been employed with the Commission?

A. Approximately 18 years.

Q. Please describe your educational background and experience.

A. In May 1983, I received a Bachelor of Science degree in Business and Administration with a major in Accounting from Southern Illinois University at Carbondale, Illinois. In May 1984, I received a Master of Accountancy degree from the same university. Also, in May 1984, I sat for and passed the Uniform Certified Public Accountants examination. Upon graduation, I accepted employment with the Commission.

Q. What has been the nature of your duties at the Commission?

A. From 1984 to 1990 I assisted with audits and examinations of the books and records of public utilities operating within the State of Missouri. In 1988 the responsibility for conducting the Actual Cost Adjustment (ACA) audits of natural gas utilities was given to the Accounting Department. I assumed responsibility for planning and implementing these audits and trained available Commission Staff (Staff) on the requirements and conduct of the audits. I participated in most of the ACA audits from early 1988 to early 1990. On November 1, 1990, I transferred to the Commission's Energy Department. Until November of 1993, my duties consisted of reviews of various tariff proposals by electric and gas utilities, Purchased Gas Adjustment reviews, and tariff reviews as part of a rate case. In November of 1993, I assumed my present duties of managing a newly created department called the Procurement Analysis Department. This Department was created to more fully address the emerging changes in the gas industry especially as they impacted the utilities' recovery of gas costs. My duties have included managing the five member staff, reviewing ACA audits and recommendations, participating in the gas integrated resource planning project, serving on the gas project team, and participating in matters relating to natural gas service in the State of Missouri.

Q. Have you previously testified before this Commission?

A. Yes. A list of cases in which I have filed testimony is included as **Schedule 1** of my testimony.

Q. What is the purpose of your testimony in this case?

A. To provide the Staff's position on how approximately $4,873,000 in undistributed proceeds should be treated under the terms of Laclede Gas Company's (Laclede's or Company's) Price Stabilization Program (PSP). This issue is the only remaining disagreement between the Company and Staff in this case. Case No. GR-2001-387 was created to address the Company's Actual Cost Adjustment (ACA) filing for the twelve months ending September 30, 2001.

Q. Could you provide a general overview of your testimony?

A. Yes. Based upon a review of 10Q documents filed with the Security and Exchange Commission (SEC) it is apparent that Laclede views these funds as income. The Staff disagrees and believes that gas costs should be reduced by the approximately $4.9 million that was being held in an account at the end of September 2001. My direct testimony in Case No GO-2000-394 provided much of the history of the PSP process in Missouri and is repeated in part in this testimony to provide sufficient context.

Q. Please provide a simplified overview on the nature of the dispute.

A. The PSP can be compared to a customer-funded insurance policy where Laclede guaranteed to indemnify the customer from catastrophic gas price increases. In exchange for this guarantee, Laclede was allowed to participate in the sharing of savings related to the program. The fact that a guarantee was made by Laclede and was done so in exchange for the hope of sharing in potential savings is readily apparent based upon a review of the Commission's Report And Order approving the PSP, dated June 15, 1999 in Case No. GO-98-484. Here the majority summarized,

> Second, Laclede proposes to incorporate an "incentive feature" into its PSP. Laclede argues that in exchange for undertaking the risks inherent in guaranteeing price protection, it should have a corresponding opportunity to benefit from it if achieves positive results." (**Schedule 2**, Case No. GO-98-484 Report And Order)

On June 1, 2000, Laclede opted out of the "guarantee part" of the PSP as it watched prices continue to escalate in the late spring of 2000. (**Schedule 3**, June 1, 2000 letter) With no "insurance policy" coverage, the customer was left exposed to price fly-ups. Laclede subsequently negotiated a Stipulation And Agreement with the Staff and Office of the Public Counsel (OPC) (**Schedule 4**) that allowed the Company to use its own discretion in obtaining levels of coverage, including zero coverage. This was to recognize that obtaining the required level of coverage (originally a significant percentage of natural gas purchases) made no sense if the deductible ** <u>HC</u>_______ ** was absurdly high. Ultimately, Laclede was able to sell and

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resell smaller amounts of the insurance coverage, ending up with levels of coverage that were mere fractions of the original guarantees. Although the $24,000,000 of gain that resulted from the program seems significant, it pales in comparison to the $63,000,000 that would have been generated had Laclede maintained its guarantee. **(Schedule 5)**

Q. Please provide the historical context for Laclede's PSP.

A. A price stabilization fund was established in Laclede Case No. GO-97-401. The underlying concept for establishing the fund in that case was that given the high gas price volatility seen in the winter of 1996-1997, and the relatively new techniques in use at that time to reduce gas price volatility, it was appropriate to develop a fund for the procurement of financial instruments. In its July 18, 1997 Order the Commission stated:

> The agreement allows Laclede to use financial instruments in its efforts to reduce the volatility of Laclede's cost of natural gas. To assure recovery by Laclede of the direct costs incurred in connection with procurement of these financial instruments Laclede is authorized under the agreement to implement a Price Stabilization Charge. The agreement provides that the Price Stabilization Charge shall take effect August 1, 1997. The revenues generated from the Price Stabilization Charge and gains from the use of financial instruments shall be accounted for separately and credited to a Price Stabilization Fund on a monthly basis.

Q. Please continue.

A. Laclede sought modifications to its program in Case No. GO-98-484. In a May 26, 1998 Order granting modifications, the Commission stated:

> The Commission originally approved the Program in Case No. GO-97-401. The tariff approved in that case provides that the Program shall be terminated July 31, 1998 unless otherwise ordered by the Commission. In this filing Laclede seeks to extend that fund for another term and modify it in several respects. Laclede proposes to change the parameters within which it uses financial instruments in two respects. First, it proposes a new authorized price range for financial instruments. Second, it proposes a new restriction on the timing of the sale of exchange traded financial instrument. Laclede also proposes to modify the tariff

> approved in Case No. GO-97-401 in two respects to clarify procedures to be followed at the end of the term of the experiment. First, the tariff provides that the Price Stabilization Charge shall be terminated on the effective date of the 1999 summer PGA filing. Second, the tariff provides that any balance remaining in the fund at the end of the term shall be charged or returned to customers through the ACA factors established in the applicable winter PGA filing.

Q. When did the incentive aspects of the program start?

A. Still using Case No. GO-98-484, the Company argued for a considerable expansion of its price stabilization fund to start in the winter of 1999-2000. It argued for three main changes. These changes were explained in the Commission's June 15, 1999 Order in Case No. GO-98-484. In describing Laclede position the Commission stated:

> First, Laclede proposes to eliminate the program's existing restriction on when financial instruments may be sold and adopt an approach that gives Laclede greater flexibility to trade in and out of these instruments when market conditions warrant. This would allow Laclede to more effectively manage the volatility of the market. Laclede alleges that this will create opportunity to reduce the overall cost of acquiring price protection for Laclede and its ratepayers. Second, Laclede proposes to incorporate an "incentive feature" into its PSP. Laclede argues that in exchange for undertaking the risks inherent in guaranteeing price protection, it should have a corresponding opportunity to benefit from it if achieves positive results. Third, Laclede proposes a three-year term for the program. Laclede contends that the longer authorization period would provide the Commission with sufficient experience with the operation of the program under varying conditions and permit a fair assessment of its effectiveness, and that this would reduce the expense of the annual review which is costly to both the Commission and to Laclede.

Q. What was the Staff's position in Case No. GO-98-484?

A. The Staff argued against authorizing incentives as part of the program. It argued that a general policy of diversification of the gas supply portfolio was a better approach. It further argued that Laclede's program was speculative, its provisions were vague, and offered Laclede "outs" from any real guarantees of price protection. The Commission ultimately approved a version of Laclede's original proposal, submitted in Laclede's surrebuttal testimony. A key provision of the new plan was that it granted approval for the winters of 1999-2000, 2000-2001, and 2001-2002.

Q. Please provide a general discussion regarding the basic provisions of Laclede's PSP.

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HC ** The highly confidential program description is provided in **Schedule 6** and tariffs in **Schedule 7.**

Q. ** HC **

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Q. What are the "outs" that you mentioned earlier?

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A. ** HC
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Q. What were Laclede's profits opportunities?

A. There were two major components to the incentive part of the plan. First a price protection incentive was developed. Depending upon where price protection was achieved, realized gains would be shared between the customer and the company. ** HC
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Q. ** HC
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A. ** HC **

Q. What was the other incentive feature?

A. The other incentive provision was called the "overall cost reduction incentive." ** HC
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Q. Please explain how the program operated for Laclede for the winter of 2000-2001.

A. ** HC
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Q. Please define what call options are?

A. A call option is an option that gives the buyer (holder) the right, but not the obligation, to buy a futures contract (enter into a long futures position) for a specified price within a specified period of time in exchange for a one-time premium payment (New York Mercantile Exchange, NYMEX, Glossary). A strike price or exercise price is the price at which the underlying futures contract is bought or sold in the event an option is exercised. (NYMEX Glossary). Call options can be used like insurance. For the payment of a premium, a certain amount of price protection can be achieved. Strike prices determine the price level that the protection will be effective at. Much like deductibles for car insurance, the higher the "strike price" the less costly the premium is. If the "catastrophe" doesn't occur, you lose the premium but have still obtained some intangible value because of the protection received. Similarly with natural gas call options; if prices stay below the strike prices, the premium will be lost. Before the option expires, it trades in its own market and may be bought and sold. One more similarity to insurance is the concept of volatility. The more volatile the market, the costlier the premium. If accidents are happening quite frequently, the cost of car insurance premiums will go up. Price volatility in the futures markets has a similar effect on call option premiums.

Q. Please continue with your discussion of the operation of Laclede's program for 2000-2001.

A. Prices moved up dramatically in the weeks after the TSP and CPL were set in March 2000. In a June 1, 2000 letter to the Commission, Mr. Kenneth J. Neises, Senior Vice President, Laclede, advised the Commission that:

> …as a result of the Company's decision to declare the Price Protection Incentive component of the Program inoperable this year, the company will retain no gains under that component of the Program or incur any losses resulting from the purchase of price protection above the catastrophic price level established by the program (i.e., $5.20 per MMBtu).

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Q. What happened next?

A. In June, July and August OPC, Staff and Laclede met to discuss possible actions to protect ratepayers. On September 1, 2000, the parties filed a Unanimous Stipulations And Agreement (Agreement) in Case No. GO-2000-394 (**Schedule 4**), which relaxed the PSP's existing requirement that the company procure price protection equal to 70% of its flowing supplies. The Agreement stated that by permitting Laclede to obtain price protections for lesser volumes, this revision would help to reduce the price at which such protection would be triggered for those volumes.

Q. Please continue.

A. The winter of 2000-2001 saw the highest NYMEX closing prices ever experienced. NYMEX closing prices for December 2000, January 2001, and February 2001 were $6.02/MMBtu, $9.98/MMBtu, and $6.29/MMBtu, respectively. PGA rates for Laclede were also at record levels. Just looking at January 2001, ** HC

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HC ** was nearly $41,000,000 less. ** HC
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Q. Please explain other Case No. GO-2000-394 proceedings.

A. On December 22, 2000, the Staff filed a Staff Recommendation, requesting that the Commission terminate the third year of the experimental PSP. An on-the-record hearing was held February 2, 2001 to address this issue. On February 13, 2001 the Commission ordered modification to the PSP for Year 3. It ordered a reduction in the 90-day window to 60 days and ordered the Company to implement its offer to contribute, for the third year of the program, an additional $4 million of its own funds to the $4 million that is currently authorized. Finally, the Company received authorization, over Staff's objections, to reduce the required price protection volume percentages in the company's PSP from 70% to 40% for the upcoming winter in order to permit a corresponding reduction in the TSP and CPL. **(Schedule 8)** Staff noted that call options have been extremely expensive relative to past years coming out of the 2000-2001 winter given the tremendous price volatility and prevailing price levels.

Q. Does the program description contain vague terminology?

A. As an illustration, the program sharing components describe savings achieved ** HC
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HC ** Emphasis added. **HC
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HC ** Of course the cost reduction incentive appears to reward such behavior by limiting sharing claims to trades taking place at least several days prior to expiration. So even though the effective price for a certain package of gas supply may have been reduced from $10.00 to $9.00 (because of a $1.00 gain from an early trade), an option with a $6.00 strike could have brought the effective price of the gas down to $6.00 if held until near expiration. (See **Schedule 9**.)

Q. What is an additional flaw of the program?

A. No matter whether the price goes up or down from the key ** HC HC HC HC HC ** One significant feature of call options is known as "time-decay." Options tend to lose value the closer they get to expiration. This is because the probability of them being in the money is less as time goes by, all other things being equal. ** HC HC **

Q. Please indicate why the Staff does not believe Laclede should share in any of the alleged savings.

A. The Staff believes that there was a link between the price guarantees that were part of the "Price Protection Incentive" and the "Overall Cost Reduction Incentive." Once Laclede opted out of the "Price Protection Incentive" feature, the "Overall Cost Reduction Incentive" (Cost Reduction) feature made no sense. According to Tariff Sheet 28-f, the Cost Reduction feature was meant to compare the Maximum Recovery Amount (MRA) of ** HC ** to

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the "net cost of price stabilization" (Actual Cost) exclusive of the gains and costs covered by Section G.3 (the Price Protection Incentive). Further elaboration of the Cost Reduction feature is contained on page 4 of the program description where ** HC

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Q. Please explain why savings under the Cost Reduction feature "made no sense" after the commitment for price protection was removed?

A. There was a real and measurable value to an absolute guarantee of price protection. Obviously, obtaining this value required the expenditure of funds. Price insurance is not free. The MRA ** HC ** represents a benchmark that implicitly assumes a certain amount of price protection (volumes covered) at a specific price level. If the Company no longer has an obligation to cover any volumes, and no longer has an obligation to guarantee any price level, then what is the Company buying for the customer? If the valuable product that was originally supposed to be purchased at a guaranteed price has disappeared, how can there be real cost savings? In other words, when Laclede revoked the guarantee, savings as contemplated by the program were not available since the foundation of the savings calculation did not exist. Certainly, there were "proceeds" that were generated by the ** HC ** but a truly

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meaningful savings calculation should not ignore that gas costs increased, were unprotected and were escalating to astronomical levels.

Q. Do you have an objective way of determining if Laclede should share in savings that is consistent with the tariffs and the program description?

A. Yes. **Schedule 9** compares what Laclede's early intermediate trading actions yielded versus the gains available from holding the options until the last three days of trading. ** HC ____________________
HC ____________________
HC ____________________ ** It is not nearly as beneficial to the customer as an expectation that Laclede should be held to its own original standard, the catastrophic price level guarantee. The Staff believes that savings under the cost reduction component of the PSP cannot be shared with the Company unless the overall early trading was indeed "favorable" and resulted in savings, not merely "proceeds" that exceed ** HC __________ **.

Q. Does this conclude your direct testimony?

A. Yes, it does.

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CASES WHERE TESTIMONY WAS FILED

DAVID M. SOMMERER

COMPANY	CASE NO.
Missouri-American Water Company	WR-85-16
Great River Gas Company	GR-85-136
Grand River Mutual Telephone	TR-85-242
Associated Natural Gas Company	GR-86-86
Empire District Electric Company	WR-86-151
Grand River Mutual Telephone Company	TR-87-25
Great River Gas Company	GM-87-65
KPL Gas Service Company	GR-89-48
KPL Gas Service Company	GR-90-16
KPL Gas Service Company	GR-90-50
Associated Natural Gas Company	GR-90-152
United Cities Gas Company	GR-90-233
United Cities Gas Company	GR-91-249
Laclede Gas Company	GR-92-165
United Cities Gas Company	GR-93-47
Western Resources Inc.	GR-93-240
Union Electric Company	GR-93-106
Missouri Public Service	GA-95-216
Missouri Gas Energy	GO-94-318
Missouri Gas Energy	GO-97-409
United Cities Gas Company	GO-97-410
Missouri Gas Energy	GR-96-450
Missouri Gas Energy	GC-98-335

COMPANY	CASE NO.
Laclede Gas Company	GO-98-484
Laclede Gas Company	GR-98-374
Laclede Gas Company	GC-99-121
Laclede Gas Company	GT-99-303
Laclede Gas Company	GR-98-297
Laclede Gas Company	GT-2001-329
Laclede Gas Company	GO-2000-394
Laclede Gas Company	GR-2001-629
Laclede Gas Company	GR-2002-356

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's Tariff)

Sheets Designed to Extend for an Additional)
Case No. GO-98-484

Period the Experimental Price Stabilization)

Fund.)

REPORT AND ORDER

Issue Date: June 15, 1999

Effective Date: June 25, 1999

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's Tariff)

Sheets Designed to Extend for an Additional)
Case No. GO-98-484

Period the Experimental Price Stabilization)

Fund.)

APPEARANCES

Michael C. Pendergast, Associate General Counsel, and **Thomas M. Byrne**, Associate Counsel, Laclede Gas Company, 720 Olive Street, Suite 1530, St. Louis, Missouri 63101, for Laclede Gas Company.

Douglas E. Micheel, Senior Public Counsel, Office of the Public Counsel, Post Office Box 7800, Jefferson City, Missouri 65102, for the Office of the Public Counsel and the public.

Thomas R. Schwarz, Jr., Deputy General Counsel, Missouri Public Service Commission, Post Office Box 360, Jefferson City, Missouri 65102, for the staff of the Missouri Public Service Commission.

REGULATORY LAW JUDGE: **Vicky Ruth.**

REPORT AND ORDER

Procedural History

The Commission initially approved Laclede Gas Company's (Laclede's) experimental Price Stabilization Program (PSP) as part of the 1997 Stipulation and Agreement approved in Case No. GO-97-401. The tariff approved in that case provides that the PSP shall be terminated July 31, 1998, unless otherwise ordered by the Commission. The PSP was proposed in order to reduce the impact of natural gas price volatility on Laclede's customers during the 1997/1998 winter season.

On April 28, 1998, Laclede Gas Company (Laclede) filed a tariff sheet designed to extend the experimental PSP for an additional term, an Application to Extend Experimental Price Stabilization Fund and Request for Prehearing Conference, and a Motion for Protective Order.

Staff filed a memorandum on May 20, 1998, in which it recommended approval of the tariff sheet extending the PSP, with modifications proposed by Laclede, and requested a prehearing conference to permit the parties to discuss other program changes proposed by Laclede. On May 26, 1998, the Commission issued an order approving the tariffs with the changes jointly recommended by the parties. The tariffs extended the program for an additional year, provided that the Price Stabilization Charge shall end with the effective date of the 1999 summer PGA filing, and determined that any ending balance in the fund be charged to or returned to ratepayers through the ACA factors established in the winter PGA filing.

Pursuant to the Commission's May 26, 1998, order, the parties met on June 11, 1998, and submitted a proposed procedural schedule on June 22, 1998, in order to litigate the remaining modifications proposed by Laclede but opposed by Staff. The Commission issued a procedural schedule on July 7, 1998, and, at the parties' request, modified it on July 22, 1998. Laclede submitted direct testimony on July 2, 1998. Staff submitted rebuttal testimony on July 30, 1998. Laclede filed surrebuttal testimony on August 5, 1998.

A hearing was held on August 10, 1998. The parties filed simultaneous initial briefs on September 25, 1998, and reply briefs were filed on October 3, 1998. OPC filed a letter on the same date indicating that it would not file a reply brief.

Pending Motion

On February 19, 1999, Laclede filed a request for an on-the-record presentation involving Case No. TO-98-484, the present case, and Case No. GT-99-303, In the Matter of the Laclede Gas Company's Tariff Sheets to Extend and Revise the Company's Gas Supply Incentive Plan. Laclede notes that it has developed and submitted two incentive proposals relating to the procurement and management of its gas supply assets. The first proposal is the subject of the present case, and it establishes an incentive Price Stabilization Program to replace Laclede's current hedging program. The second proposal pertains to Case No. GT-99-303 and seeks to extend and revise certain elements of Laclede's Gas Supply Incentive Plan (GSIP), which is scheduled to terminate on September 30, 1999 (hereinafter referred to as the GSIP II Proposal). The GSIP II Proposal was filed on January 14, 1999, and is currently scheduled to be heard in August 1999.

Laclede requests an on-the-record presentation to address these issues and asks that the Commission thereafter approve Laclede's Incentive Hedging Proposal. Staff filed a reply on March 5, 1999, indicating that it believes that the evidence in this case has been extensive and the parties' briefs adequately address the issues, and that an additional on-the-record presentation is unnecessary.

The Commission has reviewed Laclede's motion for an on-the-record presentation and the Staff's reply. The Commission appreciates both Laclede's willingness to provide the Commission with additional evidence and the patience of the parties; however, the Commission concludes that such a presentation is unnecessary in this case. The Commission addressed Laclede's request for an on-the-record presentation in Case No. GT-99-303 in an order issued April 13, 1999.

Discussion

As noted above, the objective of the current PSP is to mitigate the effects of sudden spikes in the price of natural gas. Laclede uses a common industry practice of pricing natural gas by reference to indices of spot market prices. The issue before the Commission is whether Laclede's request for modifications to the experimental PSP should be granted.

I. Laclede's Position

Laclede's proposal would allow it to trade in and out of financial instruments once a hedge position has been established. The parties disagree as to how Laclede should be permitted to acquire and use financial instruments for the winter of 1999/2000. Laclede's original proposal recommends that three major changes be made to the PSP. First, Laclede proposes to eliminate the program's existing restriction on when financial instruments may be sold and adopt an approach that gives Laclede greater flexibility to trade in and out of these instruments when market conditions warrant. This would allow Laclede to more effectively manage the volatility of the market. Laclede alleges that this will create opportunity to reduce the overall cost of acquiring price protection for Laclede and its ratepayers. Second, Laclede proposes to incorporate an "incentive feature" into its PSP. Laclede argues that in exchange for undertaking the risks inherent in guaranteeing price protection, it should have a corresponding opportunity to benefit from it if achieves positive results. Third, Laclede proposes a three-year term for the program. Laclede contends that the longer authorization period would provide the Commission with sufficient experience with the operation of the program under varying conditions and permit a fair assessment of its effectiveness, and that this would reduce the expense of the annual review which is costly to both the Commission and to Laclede.

Laclede also proposes to modify the tariff approved in Case No. GO-97-401 in order to clarify the procedures to be followed at the end of the experiment.

However, in response to concerns raised by Staff, Laclede made modifications to its original proposal, resulting in its Alternative B plan. Under the Alternative B plan, Laclede withdrew its request to use certain types of instruments and adjusted the percentage which Laclede would pay of the increased costs for the volumes which are required to be covered under the program, thus providing an absolute cap on the cost to the ratepayers of these volumes. In exchange for assuming this additional risk, the Alternative B plan increases the percentage of gains which Laclede would receive in specified instances. Laclede also indicates that it is willing to further modify its program to address certain concerns which were expressed by Commissioners at the hearing. For example, Laclede proposes to revise its method of calculating the TSP, and to adjust the sharing mechanism in the Overall Cost Reduction Incentive. In addition, Laclede offered to modify the proposal to give the Commission 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 of the program.

II. Staff's Position

Staff argues that the current program provides substantial benefit to Laclede's ratepayers by potentially obtaining effective price protection from spikes in natural gas prices for the company's heating gas supply. Staff notes that the current program is funded by a surcharge on ratepayers, which Laclede uses to secure financial instruments as a hedge against high gas prices. The Staff emphasizes that although the current hedging program acknowledges the possibility of financial gain to ratepayers, the actual purpose of the program is the protection of ratepayers from high gas prices during the period of the customers' greatest consumption. Staff alleges that Laclede's proposal modifies the program objective to include the pursuit of financial gain, and that these modifications increase the potential risk to the ratepayers.

Staff notes that Laclede proposes to liquidate hedge positions when doing so would result in gain and rehedging at a later time. However, Staff argues that Laclede proposes to move from protection to speculation and that Laclede has not provided the Commission with adequate assurances that the ratepayers will be protected. A major flaw in Laclede's proposal, according to the Staff, is that it denies the speculative nature of the market which requires a loss to match every gain. Staff is particularly concerned that Laclede refuses to openly acknowledge the speculative aspects of its proposals and has failed to suggest discrete limits to ratepayer exposure in specific trading situations.

Staff also alleges that there is an incentive for Laclede to act in the interest of the shareholders at the expense of ratepayers, and that the plan imposes additional costs on ratepayers. Furthermore, the Staff states that there is an inability to terminate the plan if the results are unfavorable.

Staff argues that the record does not establish adequate details on critical elements of Laclede's plan. Staff contends that Laclede has indicated that the detailed analysis necessary to support this type of program does not exist. Staff alleges that it is unacceptable that Laclede failed to generate adequate documentation for the proposal. Staff targets several other problems with Laclede's proposal, including Laclede's provision that ratepayers bear all the transaction costs for the program.

III. Office of Public Counsel's Position

The Office of the Public Counsel (OPC) opposes Laclede's proposal to modify its current PSP program. OPC argues that the current program is designed to provide price protection to Laclede's ratepayers and that Laclede is attempting to modify it to a program that makes the purchasing of financial instruments another "profit center" for Laclede. OPC contends that Laclede's new program is very complex and vague. OPC also argues that the new program allows Laclede to speculate with ratepayers' money but it does not help Laclede achieve the program goal of providing price protection for its ratepayers.

Findings of Fact

The Missouri Public Service Commission, having considered all of the competent and substantial evidence upon the whole record, makes the following findings of fact. The positions and arguments of all of the parties have been considered by the Commission in making this decision. Failure to specifically address a piece of evidence, position or argument of any party does not indicate that the Commission has failed to consider relevant evidence, but indicates rather that the omitted material was not dispositive of this decision, or that specifics of the evidence are not discussed herein because of their designation as "Highly Confidential" material.

The Commission finds that Laclede's request to extend or modify the experimental PSP should be granted. The Commission will approve Laclede's Alternative B plan with the additional modifications Laclede agreed to during the hearing and in its posthearing briefs. These additional modifications include a provision regarding non-winter month transactions, how the TSP will be calculated in specific situations, adjustments to the sharing mechanism in the overall cost reduction, and a provision giving the Commission 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 of the program.

In the interests of clarity, Laclede is directed to file a revised Price Stabilization Program which clearly embodies the modifications found in the Alternative B plan and includes the changes proposed by Laclede in its posthearing briefs. The Commission finds that the Alternative B plan with these additional modifications provides benefits to ratepayers regarding guaranteed catastrophic price protection and provides the potential for ratepayers to share in gains and cost savings, while also providing Laclede a financial incentive to optimize price protection in a prudent manner.

Conclusions of Law

The Missouri Public Service Commission has arrived at the following conclusions of law.

Laclede is a regulated public utility over which the Commission has jurisdiction in accordance with Chapters 386 and 393, RSMo 1994.

Orders of the Commission must be based upon competent and substantial evidence on the record. § 536.140, RSMo 1994. Based upon the complete record, the Commission concludes that Laclede's proposed modifications to the PSP are justified by substantial and competent evidence and shall be approved. Accordingly, the Commission shall approve Laclede's proposed modifications.

IT IS THEREFORE ORDERED:

1. That Laclede's application for modifications to the Price Stabilization Program, as amended by Alternative Plan B and the additional changes proposed in Laclede's posthearing briefs, is granted.

2. That the tariff filed by Laclede Gas Company on April 28, 1998, is rejected. However, Laclede Gas Company is directed to file a revised tariff sheet, and a new program description, incorporating the modifications approved in Ordered Paragraph 1, by June 30, 1999. The tariff rejected is as follows:

P.S.C. Mo. No. 5 Consolidated

First Revised Sheet No. 28-e Cancelling Original Sheet No. 28-e

3. That Staff shall file a report by July 12, 1999, which states whether Laclede Gas Company's new program description and tariff complies with this Report and Order.

4. That any pending motions or objections not specifically ruled on in this order are hereby denied or overruled.

5. That this Report and Order shall become effective on June 25, 1999.

BY THE COMMISSION

Dale Hardy Roberts

Secretary/Chief Regulatory Law Judge

(S E A L)

Crumpton, Drainer, and Murray,

CC., concur;

Lumpe, Ch., and Schemenauer, C.,

dissent, with separate dissenting

opinion;

certify compliance with the

provisions of Section 536.080,

RSMo 1994.

Dated at Jefferson City, Missouri,

on this 15th day of June, 1999.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's)

Tariff Sheets Designed to Extend for an) Case No. GO-98-484

Additional Period the Experimental Price)

Stabilization Fund.)

DISSENTING OPINION OF CHAIR SHEILA LUMPE AND COMMISSIONER ROBERT SCHEMENAUER

We respectfully disagree with the majority in case number GO-98-484. The Report and Order approved by the majority will allow Laclede Gas Company to modify the currently approved Experimental Price Stabilization Fund. The changes will permit Laclede to trade in and out of financial instruments once a hedge position has been established. Laclede argues that these changes will permit it to respond more efficiently to changes in the market to improve the position of both the company and its ratepayers. We fear that the changes will instead allow Laclede to speculate in the market while putting its ratepayers at risk.

The purpose of the Experimental Price Stabilization Fund is to permit Laclede to purchase and hold financial instruments in its efforts to reduce the volatility of its cost of natural gas. Laclede's ratepayers would thus be protected from the volatility of the natural gas market. The changes proposed by Laclede and approved by the majority will allow Laclede to stray from that basic objective by permitting Laclede to buy and sell financial instruments after establishing its hedge position, if it believes that it can make a profit by doing so. Thus the purpose of the Price Stabilization Fund is changed from protecting ratepayers from radical price fluctuations, to attempting to make a speculative profit for Laclede's shareholders through the trading of financial instruments. Laclede proposes to share a portion of these profits with its ratepayers, presupposing that there will be profits. In the meantime the ratepayers are endangered by the downside risks associated with the financial speculation proposed by Laclede.

For all its willingness to speculate with the money of the ratepayers, Laclede's proposal is remarkably short on details. Critical terms are ill-defined; critical processes are undescribed; insufficient evidence was presented to support the belief that Laclede's gas supply personnel are able to foretell natural gas market movements so as to ensure a profit. Laclede asks that its proposal be approved for a period of three years. But it does not provide any definite criteria to permit the termination of the program before that time if that becomes necessary. The ratepayers will bear all transaction costs while Laclede's shareholders will share in the benefits. The proposal does not contain adequate assurances of how ratepayers will be protected.

It seems that Laclede is asking the Commission to simply trust it to do the right thing, suggesting that its ratepayers will ultimately benefit from its financial dealings. Laclede's ratepayers are perfectly capable of speculating in the financial markets if they choose to do so. Those ratepayers do not, however, expect Laclede to use the ratepayers' money to engage in such speculation.

The majority would permit Laclede to speculate in the financial market to the possible detriment of its ratepayers. For that reason we dissent.

Respectfully submitted,

Sheila Lumpe, Chair

Robert Schemenauer, Commissioner

Dated at Jefferson City, Missouri

On this 15th day of June, 1999

Without attachments

LACLEDE GAS COMPANY
720 OLIVE STREET
ST. LOUIS, MISSOURI 63101
(314) 342-0601

KENNETH J. NEISES
SENIOR VICE PRESIDENT
ENERGY & ADMINISTRATIVE SERVICES

June 1, 2000

FILED
JUN 2 2000
Missouri Public Service Commission

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
301 W. High Street
Jefferson City, MO 65101

RE: Case No. GO-2000-394; Notice Regarding Price Protection Incentive

Dear Mr. Roberts:

The above-referenced case was established by the Commission to monitor Laclede Gas Company's ("Laclede") revised Price Stabilization Program ("Revised PSP"), as approved by the Commission in its Report and Order dated June 15, 1999, in Case No. GO-98-484. Pursuant to the terms of the Revised PSP, the purpose of this letter is to notify the Commission that Laclede is exercising its right to declare the Price Protection Incentive component of the Program inoperable for the second year of the Program.

As contemplated by the Revised PSP, such action has been necessitated by radical changes in the market conditions governing natural gas prices in general and natural gas financial instruments in particular. Even before the second year of the Revised PSP commenced in March 2000, the cost of financial instruments had already increased to a point where the *targeted* price protection level established for this year was some 70 cents greater than the highest *catastrophic* price levels (i.e. $4.00 per MMBtu) established in prior years. Unfortunately, rather than decline, as most industry experts and observers were expecting, such costs have only continued to escalate to unprecedented levels, with the result that the cost to obtain even catastrophic price protection has more than tripled over the amount authorized for that purpose under the Revised PSP. As shown by the attached articles from the Wall Street Journal and Gas Daily, this radical change in market conditions has been attributed to a number of factors, including the increased use of natural gas in electric generation, less than anticipated supplies of natural gas from Canada, and abnormally low storage levels.

Laclede intends to do whatever it can to procure reasonable price protection for its customers outside the ambit of the Price Protection Incentive in the months that remain before the onset of the winter heating season. However, as a result of the Company's decision to declare the Price Protection Incentive component of the Program inoperable this year, the Company will retain no gains under that component of the Program or incur any losses resulting from the purchase of price protection above the catastrophic price level established by the program (i.e., $5.20 per MMBtu).

Sincerely,

Kenneth J. Neises

cc: Commissioners
Office of the Public Counsel
Thomas R. Schwarz, Jr.
David M. Sommerer

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

AREA CODE 314
342-0532

MICHAEL C. PENDERGAST
ASSISTANT VICE PRESIDENT
ASSOCIATE GENERAL COUNSEL

FILED[3]

SEP 01 2000

Missouri Public
Service Commission

September 1, 2000

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
Governor Office Building
200 Madison Street
P. O. Box 360
Jefferson City, MO 65102-0360

RE: Case No. GO-2000-394

Dear Mr. Roberts:

Enclosed for filing, please find the original and eight copies of the Unanimous Stipulation and Agreement in the above-referenced case.

Please file-stamp the additional copy of this Stipulation and return the same in the pre-addressed, stamped envelope provided.

Thank you for your consideration in this matter.

Sincerely,

Michael C. Pendergast

Michael C. Pendergast

MCP:kz

cc: All parties of record

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's)
Experimental Price Stabilization Fund.) Case No. GO-2000-394

UNANIMOUS STIPULATION AND AGREEMENT

COME NOW Laclede Gas Company ("Laclede" or "Company"), the Staff of the Missouri Public Service Commission ("Staff"), and the Office of the Public Counsel ("Public Counsel") and represent to the Missouri Public Service Commission ("Commission") that they have reached a Unanimous Stipulation and Agreement (hereinafter "Stipulation") in the above-captioned case. For their Stipulation, the Parties state as follows:

1. On July 7, 2000, Laclede filed a Verified Application in the above-captioned case in which it requested authorization to implement certain temporary revisions to its Price Stabilization Program (the "PSP") for the second year of the program. The proposed temporary revisions were designed to provide the Company with additional flexibility and funds to obtain price protection in the wake of significant and continuing upward pressure in the market price for natural gas. Specifically, Laclede requested that the Commission:

(a) Increase to ten million dollars, plus transaction costs, the Maximum Recovery Amount ("MRA") established in Case No. GO-98-484, to procure financial instruments for the upcoming winter heating season;

(b) Specify that the Company may, but shall not be required to, obtain financial protection for the upcoming winter heating season in an amount up to 70% of

Laclede's normal flowing supply requirements for the months of November through March;

(c) Specify that such financial protection may, at the Company's election, be procured in the same or varying quantities for each month, including zero for certain months; and

(d) Authorize the Company to expand the type of financial instruments it may procure for these purposes to include both collar arrangements and fixed price instruments, with the condition that the Company be authorized to flow through to its customers pursuant to its Purchased Gas Adjustment Clause all realized gains and losses associated with such instruments.

At the time it filed its Verified Application, Laclede also filed a Motion for Expedited Treatment of its Application.

2. On July 19, 2000, the Staff filed its Response to the Verified Application in which it recommended that the Commission grant only part of the relief requested by Laclede in its Application. On July 21, 2000, Public Counsel also submitted a Response. It recommended that the Commission reject Laclede's Verified Application and instead instruct the Company to comply with the terms of its existing PSP. The Company filed its reply to these responses on July 25, 2000.

3. On August 1, 2000, the Commission issued an Order Denying Motion for Expedited Review, Setting Prehearing Conference and Directing Filing of Procedural Schedule. In that Order, the Commission established a prehearing conference for August 17, 2000. As a result of their discussions at the prehearing conference, the undersigned Parties have been able to reach agreement on the modifications set forth in subparagraphs

(b) and (c) of the Company's Verified Application. Specifically, the Parties have agreed that relaxation of the PSP's existing requirement that the Company procure price protection equal to 70% of its flowing supplies is appropriate. By permitting Laclede to obtain price protection for lesser volumes, such a revision will help to reduce the price at which such protection will be triggered for these volumes. Since the winter heating season is only slightly more than two months away, it is critical that such revisions be approved as soon as possible. Accordingly, the undersigned Parties recommend that the Commission issue its Order adopting these modifications at the earliest practical time.

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

WHEREFORE, the undersigned Parties respectfully request that the Commission issue its Order approving this Unanimous Stipulation and Agreement and directing Laclede to comply with the terms of its existing PSP with the modification that, for this year only, (a) the Company may, but shall not be required to, obtain financial protection for the upcoming winter heating season in an amount up to 70% of Laclede's normal flowing supply requirements for the months of November through March; and that (b) such financial protection may, at the Company's election, be procured in the same or varying quantities for each month, including zero for certain months.

Respectfully submitted,

Michael C. Pendergast #31763
Assistant Vice President
Associate General Counsel
Laclede Gas Company
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(314) 342-0532 Phone
(314) 421-1979 Fax

Thomas R. Schwarz, Jr. #29645 by mcp
Deputy General Counsel
Missouri Public Service Commission
200 Madison Street
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Jefferson City, MO 65102
(573) 751-5560 Phone
(573) 751-5562 Fax

CERTIFICATE OF SERVICE

Michael C. Pendergast, Assistant Vice President and Associate General Counsel for Laclede Gas Company, hereby certifies that the foregoing Unanimous Stipulation and Agreement 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 1st day of September, 2000.

SCHEDULE 5

IS DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY.

SCHEDULE 6

IS DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY.

P.S.C. MO. No. 5 Consolidated, Second Revised Sheet No. 28-e

CANCELLING P.S.C. MO. No. 5 Consolidated, First Revised Sheet No. 28-e

Laclede Gas Company For Refer to Sheet No. 1

Name of Issuing Corporation or Municipality — Community, Town or City

SCHEDULE OF RATES

G. Experimental Price Stabilization Fund

1. Overview - For purposes of reducing the impact of natural gas price volatility on the Company's customers, the Company shall maintain a Price Stabilization Fund ("PSF") for the procurement of certain natural gas financial instruments, which procurement shall be subject to the incentive features described below. The parameters of the PSF are included in the Description of the Incentive Price Stabilization Program filed by the Company on June 25, 1999 in Case No. GO-98-484, which description has been designated "Highly Confidential" and is only available to the Missouri Public Service Commission or to any proper party that executes a non-disclosure statement. Accordingly, the definitions of certain terms have not been disclosed herein but are available in such description.

2. Accounting for Expenses and Revenues - The PSF shall be debited with all costs and expenses associated with the Company's procurement of financial instruments and credited with all gains realized from such instruments, subject to the provisions of the Price Protection Incentive and the Overall Cost Reduction Incentive set forth below.

Effective with the Company's 1999 Winter PGA rates, the Company shall include a Price Stabilization Charge in the Commodity-Related unit gas component set forth in paragraph A.2.c. of this clause, as such charge applies to all rate schedules other than LVTSS. Such charge shall be designed to recover from customers the Maximum Recovery Amount ("MRA") established by the Commission in Case No. GO-98-484 for purposes of procuring natural gas financial instruments. The PSF shall be credited with all revenues collected through such charge.

DATE OF ISSUE June 25, 1999 (month day year) DATE EFFECTIVE July 26, 1999 (month day year)

ISSUED BY K. J. Neises, Senior Vice President, 720 Olive Street, St. Louis, MO 63101
(name of officer) (title) (address)

Schedule 7-1

P.S.C. MO. No. 5 Consolidated, Original Sheet No. 28-f

CANCELLING All Previous Schedules.

Laclede Gas Company For Refer to Sheet No. 1
Name of Issuing Corporation or Municipality Community, Town or City

SCHEDULE OF RATES

G. Experimental Price Stabilization Fund

3. Price Protection Incentive - To provide an incentive for the Company to procure natural gas financial instruments with the greatest amount of price protection, the Company and all customers other than those billed under the LVTSS rate schedule shall share certain gains and costs as follows:

a) 100% of Type I Gains shall be credited to the PSF;

b) 75% of Type II Gains shall be credited to the PSF and the remaining 25% shall be credited to the IR Account;

c) 60% of Type III Gains shall be credited to the PSF and the remaining 40% shall be credited to the IR Account; and

d) The IR Account shall be debited and the IA Account shall be credited for 100% of Type I Costs.

The foregoing gains and costs shall be calculated in conformance with the parameters approved by the Commission in Case No. GO-98-484.

4. Overall Cost Reduction Incentive - To provide an incentive for the Company to reduce the overall cost of price stabilization, at the end of each ACA year the Company shall account for any differences between the MRA and the net cost of price stabilization ("Actual Cost") for the preceding heating season, exclusive of the gains and costs covered by Section G.3, in accordance with the following schedule:

a) If the Actual Cost exceeds the MRA, the IA Account shall be credited and the IR Account shall be debited for 100% of such excess;

b) If the Actual Cost is less than the MRA, the IA Account shall be debited and the IR Account shall be credited for 40% of the difference between the MRA and the Actual Cost so long as such difference is less than $6,666,666.66; and

c) If the difference computed in 4.b) above is greater than or equal to $6,666,666.66, the IA Account shall be debited and the IR Account shall be credited for $2,666,666.66 plus 60% of the amount by which such difference exceeds $6,666,666.66.

DATE OF ISSUE June 25, 1999 (month day year) DATE EFFECTIVE July 26, 1999 (month day year)

K. J. Neises

ISSUED BY K. J. Neises, Senior Vice President, 720 Olive Street, St. Louis, MO 63101
name of officer title address

P.S.C. MO. No. 5 Consolidated, Original Sheet No. 28-g

CANCELLING All Previous Schedules.

Laclede Gas Company For Refer to Sheet No. 1

Name of Issuing Corporation or Municipality — Community, Town or City

SCHEDULE OF RATES

G. Experimental Price Stabilization Fund

5. Carrying Costs - At the end of each month carrying costs shall be applied to any balance in the PSF at a simple rate of interest equal to the prime bank lending rate as published in The Wall Street Journal on the first day of such month) minus one percentage point.

6. Reconciliation - At the end of each ACA year, any debit or credit balance in the PSF applicable to the preceding heating season, including interest, shall be charged or returned to the Company's non-LVTSS sales customers through the ACA factor established in the next Winter PGA filing. Also, any debits or credits recorded in the IA Account, including any balance from the previous ACA year, shall be accumulated and combined with the appropriate Deferred Purchased Gas Cost Account balances. The Company shall separately record that portion of ACA revenue recovery which is attributable to recovery of the balance in the IA Account. Any remaining balance shall be reflected in subsequent ACA computations.

7. Term - The Incentive Price Stabilization Program shall apply to the procurement and liquidation of certain financial instruments for the three heating seasons commencing with the 1999/2000 season, subject to revisions, if any, ordered by the Commission in accordance with the terms of the Program.

DATE OF ISSUE June 25, 1999 (month day year) DATE EFFECTIVE July 26, 1999 (month day year)

ISSUED BY K.J. Neises, Senior Vice President, 720 Olive Street, St. Louis, MO 63101
name of officer — title — address

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a session of the Public Service Commission held at its office in Jefferson City on the 13th day of February, 2001.

In the Matter of Laclede Gas Company's Experimental Price Stabilization Fund.	))	**Case No. GO-2000-394**

ORDER MODIFYING THE EXPERIMENTAL PRICE STABLIZATION PROGRAM

On December 22, 2000, the Staff of the Missouri Public Service Commission (Staff) filed a Staff Recommendation, urging that the Commission terminate the third year of the experimental Price Stabilization Program (PSP) of Laclede Gas Company (Laclede). Staff filed an additional pleading supporting its position on January 23, 2001.

Staff notes that the Commission established this case on January 11, 2000, to monitor Laclede's experimental PSP. Laclede's PSP was authorized by the Commission in its Report and Order in Case No. GO-98-484, issued June 15, 1999. The PSP was authorized for a term of three years, with the Commission retaining 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 of the program."

Staff argues that the PSP is flawed and recommends terminating the third year of the PSP. Among other things, Staff states that the PSP permits the company to speculate at no risk for 90 days, while exposing its customers to the risk of losing an effective cap on natural gas prices. According to Staff, when the market moves against its customers, Laclede seeks Commission approval to take the steps needed to protect customers. Staff argues that this additional delay in a volatile market results in harm to Laclede's customers.

Staff further alleges that when the market price of natural gas retreats from the current record levels, Laclede will reap a windfall by operation of the market, not necessarily from action of its own. Staff states that customers lose protection in a rising market, and pay more for the delivered cost of gas through incentives in a declining market.

Laclede filed responses to Staff's position on January 5, 2001, and January 29, 2001. Laclede argues that there is no justification for terminating the third year of the PSP. Laclede alleges that for a revision to be made to the PSP, the Commission must first determine that the revision is necessary to correct a "major" deficiency. Laclede indicates that there is not any deficiency in the PSP that would warrant its elimination. Contrary to the Staff's assertion that the PSP "is no longer appropriate in current market conditions," Laclede asserts that the need for effective and workable price protection programs has never been greater.

Laclede contends that as a result of its efforts under the PSP, it has converted the $4 million[1] in funds authorized under the PSP into a portfolio of financial instruments that have a realized value of $11.5 million as of the last three business days of December. In addition, Laclede states that it has been able to achieve substantial reductions in the cost of obtaining price protection pursuant to the Overall Cost Reduction Incentive component of the program. Laclede indicates that to date, these cost reductions total more than $17 million. Laclede alleges that as a result of its efforts under the PSP, the company has achieved approximately $28.5 million in financial benefits.[2]

---

[1] Under the PSP, the Maximum Recovery Amount (MRA) for the program is $4 million annually, plus transaction costs.

[2] Staff and Public Counsel disagree with these calculations.

The Office of the Public Counsel (Public Counsel) filed a pleading supporting Staff's recommendation to terminate the third year of the PSP on January 29, 2001.

On January 30, 2001, the Commission issued an Order Setting Hearing, scheduling an on-the-record presentation for February 2, 2001. The Commission indicated that it required additional information regarding the alleged deficiencies of the PSP, and a more thorough explanation of the savings that have allegedly resulted from the program. At the hearing, the parties presented oral arguments on these topics. In addition, the Commission questioned counsel and witnesses for the parties.

On February 5, 2001, Staff submitted a proposed tariff incorporating its suggested modifications. On the same date, Public Counsel submitted a proposed tariff that includes the modifications supported by Public Counsel. On February 13, 2001, Laclede filed its Response to Proposed Modifications, noting that both proposals would effectively eliminate the PSP and replace it with a new set of rules to govern Laclede's hedging activities. Laclede alleges that these new rules would be counterproductive to any effective hedging activities and, in certain respects, completely unworkable. In addition, Laclede argues that such revisions are inconsistent with the terms of the company's tariff, which provides that the PSP may be "revised" to correct "major deficiencies" in the program. Laclede contends that the proposals eliminate, rather than revise, the program, and that neither proposal has been supported as necessary to correct a "major deficiency."

The Commission has reviewed the Staff Recommendation and the official case file, and considered the arguments and evidence presented at the hearing, and concludes that there is insufficient evidence to warrant terminating the third year of the PSP. However, the Commission notes that several modifications are appropriate. First, during the February 2, 2001, hearing, Laclede offered to shorten the 90-day window or procurement period to 60 days in order to alleviate some of the Commission's concerns. The Commission finds that shortening the window from 90 days to 60 days has the potential to benefit Laclede's ratepayers yet will not substantially hamper the workings of the PSP. Therefore, the Commission will direct Laclede to file a tariff revision implementing this change.

Second, during the hearing Laclede also offered to contribute for the third year of the PSP an additional $4 million of its own funds to the $4 million that is already authorized under the program. This modification will aid Laclede in obtaining future price protection for its customers. Therefore, the Commission accepts this offer and directs Laclede to file a revision to its tariff implementing this modification.

Third, the Commission encourages Laclede to work with the Staff and Public Counsel to implement the Reconciliation process found in the PSP on an expedited basis in order to provide Laclede's ratepayers with a financial benefit more quickly.

Fourth, during the hearing Laclede indicated that it plans to seek Commission approval to extend the PSP for a fourth year. The Commission is not taking a position as to whether the program should be extended. Nonetheless, in order to allow sufficient time to address this issue, the Commission will direct the parties to set a procedural schedule.

IT IS THEREFORE ORDERED:

1. That Staff's recommendation, filed December 22, 2000, to terminate the third year of Laclede Gas Company's Experimental Price Stabilization Program is denied.

2. That Laclede Gas Company is directed to file, no later than February 23, 2001, a tariff revision shortening the 90-day window to 60 days.

3. That Laclede Gas Company is directed to file, no later than February 23, 2001, a tariff revision implementing its offer to contribute, for the third year of the program, an additional $4 million of its own funds to the $4 million that is currently authorized.

4. That the Commission encourages the parties to work together to implement the Reconciliation process found in the experimental Price Stabilization Program on an expedited basis.

5. That the parties are directed to file, no later than March 7, 2001, a proposed procedural schedule to address whether the Experimental Price Stabilization Program should be continued for a fourth year.

6. That this order shall become effective on February 15, 2001.

BY THE COMMISSION

Dale Hardy Roberts

Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

(S E A L)

Lumpe, Ch., Drainer, Murray,
Schemenauer, and Simmons, CC., concur.

Ruth, Regulatory Law Judge

SCHEDULE 9

IS DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY.