

## FACSIMILE COVER SHEET

Laclede Gas Company  
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St. Louis, MO 63101  
Facsimile No. 314-421-1979

PLEASE DELIVER THE FOLLOWING PAGES:TO: Dave Sommerer - MoPSCFACSIMILE NO: 573-526-4153

FROM: Scott E. Jaskowiak  
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MESSAGE:

Exhibit No. 18  
Case No(s) GR-2001387  
Date 2-14-03 Rptr TL

TOTAL NUMBER OF PAGES: 10 (includes cover sheet)

Please call 314-342-0737 (Joyce) if you do not receive the number of pages indicated.

DATE: 1/29/03TIME SENT: 12:20 pm

Laclede Gas Company  
ACA Audit  
Case No. GR-2001-387  
Staff Data Request No. 5064

- Q. Please provide a copy of any documentation that shows Company's rationale or state of mind at the time it purchased each option shown on Steven Mathews Rebuttal Schedule 2-1 through 2.5.
- A. The overall rationale behind the Company's options purchases and sales were to obtain the best overall price protection for its customers throughout the Winter 2000-2001 taking into consideration (a) the radical changes that were occurring in the market; (b) all of the market, weather, and pricing information that the Company had available to it; and (c) the limited amount of authorized funding to obtain price protection in light of market conditions. In response to Staff's data request number 4125 in Case No. GT-2001-329, the Company provided to Staff, for its review, over 3,000 pages of market and pricing information that the Company considered in its option purchase and sales decisions.

A major overall factor that influenced the Company's purchase and sales decisions was the limited amount of authorized funding to obtain price protection given the historically high prices at that time. As Staff is aware, the Company met with Staff several times during June through August and pleaded for increased funding. The Company met with Staff on June 9, 2000 and presented slides illustrating the price protection impact of modifying the level of call option funding from \$4 million to \$6 million, to \$8 million, and to \$10 million, and also modifying the coverage requirements from 70% to 50%, and to 60%. The Company again met with Staff on June 28, 2000 to discuss the need for increased funding for price protection. The Company presented to Staff a series of scenarios of potential price increases based on various weather patterns and recommended that the parties seek increased price protection funding from the Commission. At the Staff's urging, the Company submitted a filing on July 7, 2000 to increase the funding to the maximum \$10 million amount that the Company had been contemplating and to implement other temporary revisions to the Price Stabilization Program. On July 14, 2000, the Company met with Staff and Public Counsel to discuss the Company's filing. It was at this time that Staff first informed the Company that it would oppose the Company's filing. On July 19, 2000, Staff submitted a filing to the Commission opposing the Company's recommendation. On August 1, 2000, the Commission established a prehearing conference and ordered the parties to file a proposed procedural schedule. Recognizing that the delay inherent in a procedural schedule would effectively preclude any meaningful acquisition of price protection, the Company again met with Staff and Public Counsel on August 17, 2000 to see if some type of agreement could be reached. During the meeting, the parties were unable to reach an agreement on increased funding. In fact, Staff questioned whether the

Company should even spend the \$4 million given where prices were at the time. The Company again met with Staff and Public Counsel on August 22, 2000. Once again, the parties could not reach an agreement on increased funding but did agree to relax the 70% purchase requirement. As a result, the stipulation and agreement that was filed on September 1, 2000 relaxed the 70% purchase requirement but did not increase the level of funding under the program. It also specifically kept all other provisions of the PSP and Program Description in full force and effective, except the Price Protection Incentive feature which the Company had declared to be inoperative for that year. As Staff was aware and had been advised from the outset, these remaining provisions included the incentive aspects of the overall Cost Reduction Incentive.

Because the PSP was limited to \$4 million in funding, the Company believed that it was necessary to take advantage of the volatility that existed in the market and trade in and out of positions at favorable times to create additional funding that would be used to increase the overall price protection for the entire winter period. The Company's overall rationale was to balance the need to obtain price protection for the immediate months while still retaining the ability to finance option purchases for the remaining winter months in the event the winter weather remained severe and prices escalated further.

Laclede Gas Company  
ACA Audit  
Case No. GR-2001-387  
Staff Data Request No. 5065

- Q. Please provide a copy of any documentation that shows Company's rationale or state of mind at the time it sold each option shown on Steven Mathews Rebuttal Schedule 2-1 through 2.5.
- A. See Company response to DR 5064.

Laclede Gas Company  
ACA Audit  
Case No. GR-2001-387  
Staff Data Request No. 5066

- Q. Please provide a copy of any documentation provided to the Laclede employee(s) responsible for approving each option trade (both purchase and sales of options) shown in Mathews Rebuttal Schedule 2.
- A. See Company response to DR 5064.

Laclede Gas Company  
ACA Audit  
Case No. GR-2001-387  
Staff Data Request No. 5067

- Q. Please provide the names and titles of all Laclede employees responsible for approving option trades for the winter of 2000-2001.
- A. Mr. K. J. Neises, Senior Vice President - Energy & Administrative Services. In his absence, Mr. D. H. Yaeger, Chairman of the Board, President and Chief Executive Officer.

Laclede Gas Company  
ACA Audit  
Case No. GR-2001-387  
Staff Data Request No. 5068

- Q. Please provide the names and titles of all Laclede employees responsible for developing recommendations for option purchases and sales for the winter of 2000-2001.
- A. Mr. K. J. Neises, Senior Vice President - Energy & Administrative Services, Mr. S. F. Mathews, Director of Gas Supply, Mr. S. E. Jaskowiak, Manager of Gas Supply and Mr. G. E. Godat, Gas Supply Administrator.

Laclede Gas Company  
ACA Audit  
Case No. GR-2001-387  
Staff Data Request No. 5069

- Q. Please provide copies of all evaluations performed by the Company and consultants that recommended specific entrance and exit strategies for option purchases and sales for the winter of 2000-2001.
- A. See Company response to DR 5064.



Laclede Gas Company  
ACA Audit  
Case No. GR-2001-387  
Staff Data Request No. 5070

- Q. Please provide a copy of all documentation that shows the Company evaluated the alternative of using fixed prices rather than call options for the winter of 2001-2002 pursuant to Mr. Mathews Direct Testimony on page 9 that the Company's purchase of call options for the winter of 2001-2002 resulted in savings.
- A. During March 2001, Winter 2001-2002 fixed prices were close to \$5.50 per MMBtu. The Company did not believe it was appropriate to fix Winter 2001-2002 prices at such high levels despite Staff's suggestions that fixed prices be considered as an alternative to the use of options at that time. See attached documentation.

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