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RICHARD T. CIOTTON

October 25, 2002

Secretary
Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

FILED³

OCT 25 2002

RE: Case No. GR-2002-356

**Missouri Public
Service Commission**

Dear Mr. Roberts:

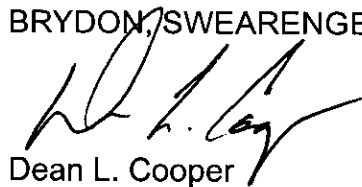
Enclosed please find an original and eight copies of Laclede Gas Company's Response to Staff's Motion to Suspend Tariff, To Deny Laclede's Request for Expedited Treatment and Request for Expedited Treatment. Please file stamp the enclosed extra receipt copy and return it to me for my records.

If you have any questions concerning this matter, then please do not hesitate to contact me. Thank you very much for your attention to this matter.

Sincerely,

BRYDON, SWEARENGEN & ENGLAND P.C.

By:



Dean L. Cooper

DLC/tli

Enclosures

cc: Office of the Public Counsel
General Counsel
Michael Pendergast

FILED³
OCT 25 2002
Missouri Public
Service Commission

Case No. GR-2002-356

COMES NOW Laclede Gas Company (“Laclede” or “Company”) and, in support of its Response to Staff’s Motion to Suspend Tariff, to Deny Laclede’s Request for Expedited Treatment and Request for Expedited Treatment, states as follows:

2. On October 3, 2002, the Commission issued its Order Approving Stipulation and Agreement in which it approved the three stipulations and agreements that had been submitted by the parties to this case to recommend a resolution of all issues raised in this matter. In that Order, the Commission directed Laclede to file compliance tariffs within 30 days of the effective date of the Order.

1

Staff's Motion

4. On October 24, 2002, the Staff filed its Motion in which it requested that the Commission suspend the compliance tariffs filed by Laclede because, in Staff's view, they are not in compliance with the Commission's Order approving the Stipulations and Agreements in this case. In support of its position, Staff asserts that the Company made a "new adjustment" in calculating its rates for residential customers. Specifically, Staff states that the Company "moved" 2,520,000 therms out of the first block and into the second block of the distribution rate applicable to residential customers. According to Staff, the effect of moving these therms from block one to block two is to produce approximately \$1 million in additional revenues compared to those that would be generated using Staff's preferred methodology for establishing how therms should be allocated between the various blocks. Based on Staff's apparent assumption that its methodology is the only one that can be used for allocating therms between rate blocks, it concludes that the Company's tariffs do not comply with the Commission's Order because, when viewed through the prism of Staff's methodology, it produces more revenue than what the Commission authorized for Laclede.

RESPONSE TO STAFF'S MOTION

5. Laclede agrees with Staff that this difference in how therms are allocated between block one and block two of its residential rates is indeed the result of a methodology difference between the Staff and Company. Laclede strongly disagrees, however, with Staff's assertion that because this difference exists, the Company's tariff filing and rates are not in compliance with the Commission's Order or that they provide an additional \$1.0 million in revenues above the \$14 million agreed upon in the

Stipulation and Agreement. In fact, just the opposite is true, since use of the Company's term allocations is affirmatively required to comply with all aspects of the Commission's Order and the Stipulations and Agreements that were approved thereby.

6. Contrary to Staff's assertion, the Company's allocation of therms between blocks one and two of its residential distribution rates is not a "new adjustment." In fact, the therms which the Staff claims the Company "moved" from block one to block two of its distribution rates could not have been moved because they were *never* included in block one in any of the rates and underlying billing determinants that were filed by the Company in this case. Specifically, they were not included in the block one therms underlying the rates that were filed by the Company when it initiated this case last January. Nor were they included in the block one therms that were used by the Company to establish the weather mitigation rate design and the specific rates that were set forth in the rebuttal testimony of Michael T. Cline in this case. Notably, this is the very rate design that the parties to this case recommended be approved by the Commission and that the Commission did, in fact, approve in its October 3, 2002 Order Approving Stipulation and Agreement.¹

7. Since the level of weather mitigation protection that was produced by Mr. Cline's rate design (as repeatedly quantified by Mr. Cline in testimony) was predicated and dependent on his allocation of therms between the rate blocks, the Company had every reason to believe that, with the explicit adoption of that rate design in the Stipulation and Agreement, such an allocation would be used to develop final rates in this

¹ See paragraph 2 of the September 5, 2002 Stipulation and Agreement which specifically recommends that the rate design "as set forth and described in the rebuttal testimony of Laclede witness Michael T. Cline ..." be adopted subject only to certain modifications proposed by David Sommerer and Michael S. Proctor that were completely unrelated to the allocation of therms between rate blocks.

proceeding. Indeed, it was the Company's belief and reliance on fact that it would be entitled to pursue this specific level of weather mitigation protection (*see* Paragraph 17 of the August 20, 2002 Partial Stipulation and Agreement) that prompted it to accept a lower revenue requirement in this case. And it was the Company's belief that it had actually obtained this specific level of weather mitigation protection that led it to make other significant financial concessions in this case, including its agreement to a rate moratorium.

8. The Company's efforts to derive rate impacts for residential customers in recognition of the Parties' desire to advise the Commission of such impacts at the September 16, 2002 On-the-Record Presentation in this case were also entirely consistent with this belief. To that end, the Company sent its billing determinants and block therm allocations to the Staff on September 11, 2002. After hearing back from the Staff, Mr. Cline then conveyed his worksheet to Staff, Public Counsel and the other active parties to this case on September 13, 2002, showing how he had derived the revenue increases and rate component increases by rate schedule pursuant to the Stipulation and Agreement in this case. In the e-mail accompanying this analysis, which is set forth in Attachment 1 hereto, Mr. Cline clearly stated that the analysis was "based on billing determinants that have been agreed to by both the Company and the Staff." He further stated that "[r]ates for Residential General and LVTSS should be final." Notably, while the analysis did not specifically identify and explain how every number was derived, it clearly showed an overall level of block one therms for the Residential rate schedule that is consistent with

the rates that were ultimately included in the Company's compliance filing and that did *not* include the 2,520,000 therms that Staff now states should be included in block one.²

9. In view of these considerations, the Company believed that any issue over how therms should be allocated between residential rate blocks and how rates for the Residential Rate schedule should be derived had been resolved. And it was not until more than a month *after* Mr. Cline had sent his e-mail to the parties and weeks after the Commission had held the On-the-Record Presentation and issued its Order approving Stipulation and Agreement in this case, that the Company was finally told something to the contrary. Specifically, it was not until October 15, 2002, that the Company received an e-mail from Staff suggesting that a different allocation of therms between rate blocks should be used for purposes of deriving the rates for the Residential Class.

10. Although never expressed to the Company and never provided for in any of the Stipulations and Agreements approved by the Commission, the Staff has apparently been operating under the assumption that its allocation of therms between rate blocks would be used for purposes of deriving the rates in this proceeding, including rates for the residential rate schedule. In view of the history described above, this came as a complete surprise to the Company, particularly in view of the fact that the use of Staff's block allocations would unquestionably expose the Company to an additional \$1 million in weather-related losses compared to the weather mitigation rate design that was agreed upon by the Parties and approved by the Commission.

11. Nevertheless, the Company has attempted to work with the Staff to resolve this regrettable misunderstanding. Among other things, it accepted a new allocation by

² Mr. Cline's analysis showed an overall amount of therms for the winter months of November through April of 212,988,388. In comparison, Staff suggests that an overall therm level of 215,633,467 should be

Staff of approximately one million therms to the first block of the distribution rates for its General Service C&I customer classes -- an allocation that exposes the Company to approximately \$300,000 in additional weather-related losses. The Company made this accommodation, even though such an allocation to the first block was never included in any Staff filings in this case and was apparently designed to correct a Staff error. Despite this consideration, however, the Company believed that such an allocation was reasonable and therefore agreed to it.

12. The Company has also attempted to seek a resolution of its differences with Staff over the allocation of therms between the rate blocks for its General Service Residential Rate Schedule. The Company has done so even though it believes the Staff's allocation is completely inconsistent with actual historical experience. In effect, by suggesting that 2,520,000 therms be added to block one of the Company's distribution rates for the cycle billing month of November, the Staff is assuming that Laclede's residential customers will have an average usage of 58.2 therms during the month under normal weather conditions, compared to the 54 therm average assumed by the Company. As shown in Attachment 2, however, the last time the Company's residential customers had an average usage for the November billing cycle that was anywhere close to 58 therms was in 1996 and 1997, when the degrees days were some 14% to 24% colder than the 482 normal level of degree days applicable to the month of November.³ Notwithstanding these considerations though the Company has sought to resolve the differences arising from this misunderstanding. At this time, however, it does not appear

used.

³ For example, it took 550 degree days during the November cycle billing month of 1996 to produce an average usage of 57.8 therms for the month. Nevertheless, Staff's approach would suggest that the

that the Staff is willing to entertain any solution other than a complete adoption of Staff's position.

OPTIONS FOR RESOLVING MATTER

13. Given the immediacy of the situation and the need to resolve the matter in time to permit the new rates to become effective by November 1, 2002 as contemplated by the Stipulations and Agreements approved by the Commission, the Company therefore wishes to advise the Commission of at least three options that the Company believes could be used to resolve this matter.⁴

14. First, the Company would be willing to simply split the difference on the level of therms that Staff has proposed be added to block one of the residential rate. Specifically, the Company would propose that 1,126,000 therms be added to block one in lieu of the 2,520,000 therms proposed by Staff. This solution, that would result in an allocation of overall therms to the first block that is approximately one half of one percent greater than the level proposed by the Company and one half of one percent less than the level proposed by Staff results in such a small change from the therms used by both parties that it falls within or is very close to the margin of error inherent in both parties' methodology. At the same time, it resolves a difference that gives equal acknowledgement to both parties' position.

15. Alternatively, the Company would propose that the tariff language set forth in Attachment 3 to this Response be adopted by the Commission. This language specifically provides that in the event average customer usage in the first rate block

significantly lower degree day normal of 482 for the November billing cycle will actually produce a higher average usage per customer of 58.2 therms.

⁴ It should be noted that in contrast to the situation that confronted the Commission in *Re: Empire District Electric Company*, Case No. ET-2002-210, the Company has raised its concerns regarding Staff's

month for the November billing cycle actually exceeds 54 therms, as Staff suggests it might, then all revenues realized from such excess therms would be treated as gas cost revenues (and hence used to offset gas costs) rather than margin revenues that would otherwise be retained by the Company. Such an approach would give full force and effect to Staff's position by ensuring that the Company never receives a dime more in margin revenues for the November billing cycle than what Staff has assumed it will under its allocation of therms. At the same time, it provides the level of weather mitigation protection that the Company thought it had been authorized when its rate design proposal was approved by the Commission. In short, the tariff language provides the Commission with an opportunity to give full force and effect to both the revenue requirement and the weather mitigation aspects of the Stipulations and Agreements it has approved in a manner that accommodates the positions of both the Company and the Staff. Under such circumstances, such a solution is unquestionably in compliance with both the Commission's Order and the Stipulations and Agreements that were approved by that Order.

16. Finally, if the Commission is not prepared to either deny Staff's Motion outright or adopt one of the options described above, the Company would be willing to file an additional tariff sheet, similar to one that was filed by AmerenUE in its recent complaint proceeding, specifying the Company's agreement to make any Commission determination of this issue effective retroactive to November 1, 2002. Such an approach would permit the tariffs proposed by the Company to go into effect on a timely basis

approach in this case on a timely basis that gives the Commission a full opportunity to provide an appropriate remedy.

while still preserving the Commission's ability and giving it additional time to resolve this matter and give full force and effect to any decision it may reach.

17. Given Staff's request in its Motion that this matter be taken up by the Commission at its agenda meeting on October 29, 2002 -- a recommendation with which the Company agrees -- Laclede further requests that Staff be required to advise the Commission by October 28, 2002 of its position regarding these options for resolving this matter.

WHEREFORE, for the foregoing reasons, Laclede Gas Company respectfully requests that the Commission issue its Order denying Staff's Motion outright or approving the compliance tariffs for service rendered on and after November 1, 2002 subject to the Company filing of a substitute tariff implementing one of the options described above.

Respectfully Submitted,

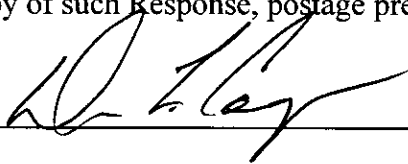
by d/c

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Certificate of Service

The undersigned certifies that a true and correct copy of the foregoing Response to Motion was served on the General Counsel of the Staff of the Missouri Public Service Commission and the remaining parties to Case No. GR-2002-356 on this 25th day of October 2002 by hand-delivery or by placing a copy of such Response, postage prepaid, in the United States mail.



Michael T Cline
Sent by: Michael T Cline

09/13/2002 12:39 PM

To: dbeck01@mail.state.mo.us, aross02@mail.state.mo.us,
hhu@ded.state.mo.us, jbusch@DED.state.mo.us,
jmallinckrodt@consultbal.com, MMD@drazen.com
cc: Mike Pendergast/LACLEDE NOTES@LACLEDE GAS,
dmicheel@ded.state.mo.us
Subject: Laclede Rates

Attached is a preliminary worksheet (Lotus and Excel versions) that derives the revenue increases and rate component increases by rate schedule pursuant to the S&A with the exception of the three new C&I General Service classes. Such is based on billing determinants that have been agreed to by both the Company and the Staff. Rates for Residential General and LVTSS should be final. The Company may use some of the impacts and rates included in the worksheet at the presentation of the S&A to the Commission on Monday. Please call me at 314-342-0524 if you have any questions. In the meantime, I will continue to review the attached as well.



RATEALLOC02F4.12 RATEALLOC02F4.XL

NORMALIZED BILLING DETERMINANTS

	No. of bills	Billing Dem./Res. Therms	Block 1 Therms	Block 2 Therms	Block 3 Therms	Total Therms
General Service						
Nov. - Apr.	3,586,530	0	212,988,388	265,888,081		478,876,469
May - Oct.	3,565,603	0	85,546,786	5,862,226		91,409,012
Subtotal	7,152,133	0	298,535,174	271,750,307	0	570,285,481
						957
Nov. - Apr.	242,629	0	16,959,126	172,191,775		189,150,901
May - Oct.	239,677	0	8,200,023	31,127,112		39,327,135
Subtotal	482,306	0	25,159,149	203,318,887	0	228,478,036
Nov. - Apr.	0	0	0	0		0
May - Oct.	0	0	0	0		0
Subtotal	0	0	0	0	0	0
	7,634,439	0	323,694,323	475,069,194	0	798,763,517
Air Conditioning						
SUMMER	1,025	0	50,993	75,919	0	126,912
	297	0	27,111	1,115,606	0	1,142,717
	0	0	0	0	0	0
	1,322	0	78,104	1,191,525	0	1,269,629
		0				
WINTER	1,463	0	91,223	236,237		327,460
	296	0	29,208	1,813,544		1,842,752
	0	0	0	0		0
	1,759	0	120,431	2,049,781		2,170,212
						3,439,841
Large Volume						
	1,224	1,954,177	19,244,934	2,221,519		21,466,453
	0	0	0	0		0
Rate Subtotal	1,224	1,954,177	19,244,934	2,221,519	0	21,466,453
Interruptible						
	156	0	3,483,538	429,208		3,912,746
	0	0	0	0		0
Rate Subtotal	156	0	3,483,538	429,208	0	3,912,746
Special Contracts						
	0	0	0	0		0
General L.P. Gas						
	2,061		107,825	0		107,825
	24		1,420	0		1,420
	0		0	0		0
Rate Subtotal	2,085	0	109,245	0	0	109,245
Vehicular Fuel						
	47	0		50,493		50,493
Unmetered Gas Light						
	1,378	0	102,886	24,919		127,805
Transportation						
Commercial	660	12,178,880	19,950,314	46,789,423		66,739,737
Industrial	36	0	0	0		0
	696	12,178,880	19,950,314	46,789,423	0	66,739,737
Commercial	1,140	0	35,388,422	84,969,673		120,358,095
Industrial	0	0	0	0		0
	1,140	0	35,388,422	84,969,673	0	120,358,095
Firm						
Commercial			0	0		0
Industrial			0	0	0	0
Rate Subtotal	0	0	0	0	0	0
Basic						
Commercial			0	0		0
Industrial			0	0		0
Rate Subtotal	0	0	0	0	0	0
Firm						
Commercial			39,174	0		39,174
Industrial			0	0		0
Rate Subtotal	0	0	39,174	0	0	39,174
Basic						
Commercial		0	301,486	0		301,486
Industrial		0	0	0		0
Rate Subtotal	0	0	301,486	0	0	301,486
Commercial	0	0	0	0		0
Industrial	0	0	0	0		0
Rate Subtotal	0	0	0	0	0	0
Transportation Subtotal	1,836	12,178,880	55,679,396	131,759,096	0	187,438,492
Grand Totals						
	7,644,246	14,133,057	402,512,857	612,795,735		1,015,308,592

GR-2002-356
Laclede Gas Company
All Divisions - Residential General
Block 1 Use per Customer

November Billing Cycle

	<u>Avg. U/C</u>	<u>Degree Days</u>
Nov. 1996	57.8	550
Nov. 1997	58.8	600
Nov. 1998	53.0	384
Nov. 1999	48.2	283
Nov. 2000	52.2	436
Nov. 2001	50.1	320
Average	53.4	429

Level Reflected in:

Laclede Billing Determinants	54.0	482
Staff Billing Determinants	58.2	482

Sheet No. 2

Laclede Gas Company

Name of Issuing Corporation or Municipality

For

Refer to Sheet No. 1

Community, Town or City

SCHEDULE OF RATES

RESIDENTIAL GENERAL SERVICE (RG)

Availability – This rate schedule is available for all gas service rendered by the Company to residential customers, including space heating service.

Rate – The monthly charge shall consist of a customer charge plus a charge for gas used as set forth below:

Customer Charge – per month	\$12.00	
	Summer - Billing Months of <u>May-October</u>	Winter – Billing Months of <u>November-April</u>
Charge for Gas Used – per therm		
For the first 65 therms used per month	16.528¢	39.352¢
For all therms used in excess of 65 therms	12.463¢	0.00¢

Minimum Monthly Charge – The Customer Charge.

Purchased Gas Adjustment – The charge for gas used as specified in this schedule shall be subject to an adjustment per therm for increases and decreases in the Company's cost of purchased gas, as set out on Sheet No. 29. To the extent that the average residential use per customer in the first rate block (0-65 therms) during the billing month of November is greater than 54 therms, the revenues, excluding gross receipts taxes, associated with the charge for gas used in such rate block, shall be deemed to be gas cost recoveries pursuant to the Company's PGA clause. Such excess revenues shall be measured by multiplying such excess use per customer by both the total number of actual residential customers billed during the month and the first rate block charge for gas used.

Late Payment Charge – Unless otherwise required by law or other regulation, 1.5% will be added to the outstanding balance of all bills not paid by the delinquent date stated on the bill. The late payment charge will not be applied to amounts being collected through a pre-arranged payment agreement with the Company that is kept up-to-date.

DATE OF ISSUE

Month Day Year

DATE EFFECTIVE

Month Day Year

ISSUED BY

K.J. Neises, Executive Vice President, 720 Olive St., St. Louis, MO 63101

Name of Officer

Title

Address