

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

St. Louis Natural Gas Pipeline LLC)	
)	
Complainant,)	
v.)	Case No. GC-2011-0294
)	
Laclede Gas Company,)	
Respondent.)	

LACLEDE GAS COMPANY'S RESPONSE TO STAFF REPORT

COMES NOW Respondent, Laclede Gas Company ("Laclede" or "Company") and, pursuant to the Commission's July 1, 2011 Order in this case, submits this response to the Staff's Report in this case. In support thereof, Laclede states as follows:

1. Pursuant to the Commission's earlier directive, the Staff conducted an investigation and submitted its Report in this case on June 30, 2011. The Staff's Report addressed a number of the factual allegations that had been raised in the parties' pleadings and recommended that the Commission urge Laclede and the Complainant, SLNGP, to conduct additional negotiations to determine if an agreement could be reached on an interconnection arrangement that was truly risk free to Laclede.

2. On July 1, the Commission issued its Order giving parties until July 11, 2011 to respond to the Staff's Report. In particular, the Commission directed Laclede and SLNGP to indicate whether they were indeed willing to engage in additional negotiations and, if so, to propose a schedule for conducting such negotiations.

Propriety of Laclede's Previous Rejection of SLNGP's Proposals

3. At the outset, Laclede wishes to commend the Staff for providing critical information on the key factual issues underlying this Complaint proceeding. For its part, Laclede has consistently maintained that it declined SLNGP's various proposals to

subscribe to, invest in, or interconnect with its proposed pipeline for reasons that were entirely proper and appropriate. Specifically, Laclede asserted that it had rejected the proposed arrangements because they would have added nothing of value for Laclede or its customers. As the information provided to Staff and OPC showed, even a simple interconnection arrangement would require Laclede to incur up to \$100,000 a year in additional O&M costs¹ For that additional expense, Laclede and its customers would have received nothing more than redundant pipeline access to the same gas supplies that Laclede can already access through the CenterPoint-MRT East line. The fact that SLNGP was proposing to charge a firm transportation (“FT”) rate for such duplicate access (*i.e.*, 7.8 to 8.5 cents) that was some 15% higher than the FT rate currently available to the Company over the CenterPoint MRT East line (*i.e.*, 7 cents) only made the case for rejecting the proposed arrangement more compelling.²

4. For its part, SLNGP argued that Laclede must have some nefarious reason for rejecting its proposal since it claimed to offer Laclede a “risk free” interconnection arrangement, and the ability to transport gas at a proposed rate of 7.8 to 8.5 cents per MMBtu compared to a rate of 20 cents per MMBtu for transportation on the CenterPoint MRT East Line. With respect to what those nefarious reasons might be, SLNGP

¹The O&M costs would have consisted of additional leak survey, odorization, security and other costs that Laclede must typically incur to monitor and maintain take points where interstate or intrastate facilities are interconnected with the Company’s distribution facilities.

² Unfortunately, as unfavorable as it already is, SLNGP’s proposal is even worse when one considers other estimates for the cost of constructing the proposed pipeline over an identical route. Although SLNGP currently claims that the project would cost about \$32 million, a prior proposal that Laclede rejected a few years ago for a similar pipeline project estimated that such a pipeline would cost substantially more to build (*i.e.* about \$56.0 million) than what SLNGP has estimated due to the need to go around certain historically significant areas, use extensive timber matting, etc. Because SLNGP has provided so little information regarding its estimates (in marked contrast to the kind of detailed information that Laclede has received from other pipelines seeking to do business with Laclede), it is not possible to assess why there is such a significant difference between these estimates. Suffice it to say that it is extremely difficult to have any confidence in SLNGP’s unsupported cost estimate given this difference and the fact that SLNGP’s own estimate has already escalated by some 25% in the past seven months alone (*i.e.*, from \$25.7 million in October 2010 to \$30.0 million in February 2011, to \$32 million in May 2011).

speculated, without basis, that Laclede was rejecting its proposal out of a desire to improperly benefit its affiliate, LER, or as part of a collusive effort to provide an undue advantage to its existing pipeline suppliers, including CenterPoint MRT. SLNGP also accused Laclede, again without basis, of violating its statutory obligations because CenterPoint MRT, in SLNGP's opinion, operates the East Line in an unsafe manner.

5. Fortunately, the Staff's Report sheds some highly instructive light on this hash of baseless assertions. First, on the core issue of how SLNGP's proposed FT rate compares to CenterPoint MRT's FT rate, the Staff has now confirmed that the CenterPoint MRT rate is indeed around 7 cents rather than the 20 cent rate that had been claimed by SLNGP. (Staff Report, pp. 5-6). According to Staff, SLNGP must have simply misread or misinterpreted the CenterPoint MRT tariff applicable to the East Line. (*Id.* at 6). Whatever the explanation, it is clear that in developing and trying to sell the economics of its proposed pipeline, SLNGP overstated the cost of Laclede's existing transportation option by nearly *three* fold. It is equally clear that in rejecting SLNGP's proposal, Laclede was simply acting in a prudent and reasonable way by declining an option that, on its face, did not make any economic sense in that it promised to impose additional cost on the Company and its customers without any offsetting benefits.

6. Second, the Staff Report indicates a complete failure on the part of SLNGP to provide any evidence or information that would substantiate the various accusations it has made in an effort to argue that Laclede turned down its proposal for improper reasons. (Staff Report, p. 3). Specifically, SLNGP provided no information to support its assertion that Laclede was trying to benefit its affiliate improperly, nor its assertion that Laclede was improperly colluding with its other pipeline suppliers, or its

assertion that Laclede's existing transportation option for accessing the same gas supplies that SLNGP proposes to access are unsafe or inadequate. (*Id.*). In fact, all that SLNGP could offer Staff in this regard was the contention that it had submitted data requests to Laclede from which it hoped to obtain some after-the-fact support for the assertions that, to date at least, it has apparently concocted out of whole cloth and without any basis in fact. (*Id.*).

7. Third, the Staff Report suggests that SLNGP's proposed interconnection agreement was not exactly the "risk free" proposition that SLNGP claimed. In fact, the Staff Report goes so far as to discuss changes that could be made to the proposed SLNGP agreement to make it truly risk free, including provisions relating to alternative treatment for upfront installation costs and O&M expenses. (Staff Report, pages 3, 5, and 8).

8. In the end, Staff's Report verifies the essential facts demonstrating that Laclede had good and valid reasons for declining SLNGP's proposals. And in view of Staff's Report, Laclede hopes the Commission will understand why the Company would continue to have serious reservations about doing business with an entity that has demonstrated such a troubling inability to properly analyze even the most rudimentary factors that bear on the economic feasibility of its proposed business venture – an inability that is matched only by its equally troubling propensity to hurl unsubstantiated accusations against those who have done nothing more than act in accordance with a correct assessment of those factors.

9. Unfortunately, those reservations are only heightened by items such as SLNGP's website description of the proposed pipeline project. In response to a

“frequently asked question” regarding the identity of the end users of the proposed pipeline, the SLNGP website, as of today, states as follows:

Delivery interconnects are anticipated with Laclede Gas and Ameren, Mo. These pipelines in turn will transport the gas on to local utilities which provide service to end users in the Eastern States. Among these end users are individual homes, small and large businesses, and electric generating plants. In fact, a large portion of the St. Louis Natural Gas Pipeline’s capacity will be used to supply fuel to natural gas power plants which provide clean, economical electricity.

(See Attachment 1, reproduced from <http://stlouisnaturalgaspipeline.com/faq.html#S1Q7>)

It is simply inexplicable how such a bizarrely inaccurate depiction of the potential end users of the proposed pipeline could have been written, let alone posted on SLNGP’s website. Obviously, neither Laclede Gas nor Ameren are pipelines. Nor do they transport gas to local utilities in “the Eastern States.” Nor is Laclede aware of any electric generating plants that would be fueled by gas received off of the proposed pipeline. If this wholly imaginary portrayal of the project’s potential users was an isolated departure from reality on the part of SLNGP’s principals, it might be less concerning. When combined with SLNGP’s gross miscalculation of the economic benefits of its proposed project versus Laclede’s existing options, however, it only raises further questions about SLNGP’s fitness to construct and operate the pipeline that it seeks to connect to Laclede’s system.

Willingness to Commit to a Truly Risk Free Interconnection Agreement

10. Despite these serious and continuing reservations, Laclede is willing to enter into a settlement agreement with SLNGP in this case in which it would formally commit to executing an interconnection agreement with SLNGP if and when SLNGP obtains all necessary federal approvals for its proposed pipeline. Laclede has no problem

using the interconnection agreement that was submitted by SLNGP as a starting point.

Consistent with SLNGP's own representations that its intent was to offer Laclede a risk free interconnection arrangement, any settlement agreement must provide that:

- (a) Laclede and its customers would not be responsible in any future interconnection agreement for the O&M cost associated with maintaining the SLNGP take point unless or until such time as the proposed pipeline is regularly used by Laclede or customers behind Laclede's city gate. This would be accomplished by providing language in the settlement agreement specifying that SLNGP would pay such costs until such time as the pipeline consistently achieved an annual average load factor equal to 20% of its capacity. If this annual average load factor was not achieved within three years of installation, Laclede would have the option of terminating the interconnection.
- (b) Laclede and its customers would not be responsible for any costs, including any unanticipated cost overruns, incurred in constructing the interconnection facilities. This primarily would be accomplished by imposing on SLNGP, rather than Laclede, the obligation to pay the contractor who would be installing the facilities, subject to Laclede's specifications, monitoring and approval.
- (c) Laclede and its customers would bear no liability or cost exposure of any kind if the pipeline project does not attain sufficient subscriptions to keep it viable. This would be accomplished by including provisions in the settlement agreement and any future interconnection agreement making it clear that Laclede does not believe the project is economic, that SLNGP is knowingly taking on the risk that neither Laclede or other customers will subscribe to transportation service, that Laclede would have sole discretion (subject only to prudence reviews by the Missouri PSC) to determine whether it would or would not subscribe to such service in the future, and that SLNGP would release and indemnify Laclede from any and all claims relating to a lack of subscription.
- (d) The settlement agreement may not be represented by SLNGP during the FERC approval process as signaling any interest by Laclede that it would subscribe to SLNGP's proposed FT service. This would be accomplished by including in the settlement agreement disclaimer language specifying that it is expressly understood that Laclede's commitment is strictly limited to entering into a risk free interconnection agreement upon receipt of all required regulatory approvals, and should in no way be construed as constituting any form of commitment on the part of Laclede to subscribe to any transportation or other service offered by SLNGP on its pipeline. As previously noted, the settlement agreement would further specify that

any decision to subscribe to such services would be made by Laclede in its sole discretion (subject only to prudence review) and that no party would take or pursue an action that is inconsistent with this express understanding.

- (e) In exchange for Laclede's commitments, as outlined above, the settlement agreement would provide for a dismissal of this complaint with prejudice and a release of any other related claims that SLNGP has or may have.

11. Laclede intends to submit such a settlement agreement to SLNGP on or before Friday, July 15, 2011. Based on a communication from SLNGP, Laclede would further propose that SLNGP respond to the agreement within seven days. Finally, Laclede recommends that Laclede and SLNGP jointly or separately advise the Commission by August 11, 2011 whether they have reached a final agreement.

12. Laclede wishes to emphasize that while it is willing to commit now to entering into a future "risk free" interconnection agreement with SLNGP that reflects these principles, and have that commitment specifically and formally reflected in a settlement agreement, it is not willing to execute such an agreement unless and until such time as SLNGP obtains whatever FERC or other federal approvals are necessary to move forward with the project. By making the formal commitment outlined above, Laclede believes it has fully satisfied the gravamen of SLNGP's complaint. Having done so, however, Laclede should not be required to execute an agreement for a project that may or may not achieve FERC and other required federal approvals to move forward. Indeed, it would be an affront to good business practices and fundamental notions of fairness to allow SLNGP to use the regulatory process to leapfrog (at least anymore than it already has) in front of other potential pipeline suppliers that have gone to considerable time and expense to submit far more detailed proposals than SLNGP and that, unlike SLNGP, are competing for Laclede's business based solely on the virtues of their proposals.

13. Accordingly, regardless of whether Laclede and SLNGP are able to reach a mutually-acceptable settlement agreement, Laclede reserves the right to assert, at the conclusion of its discussion with SLNGP, that it has already reasonably satisfied SLNGP's complaint by making the formal commitments, and providing the specific assurances, that SLNGP has sought to access Laclede's distribution system, and that no further proceedings in this case are therefore either necessary or appropriate.

WHEREFORE, for the foregoing reasons, Respondent Laclede Gas Company respectfully requests that the Commission take note of this Response and issue an Order directing Laclede and SLNGP to report back to the Commission by August 11, 2011.

Respectfully submitted,

/s/Michael C. Pendergast

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Certificate of Service

The undersigned certifies that a true and correct copy of the foregoing Answer was served on the Staff and on the Office of Public Counsel on this 11th day of July, 2011 by United States mail, hand-delivery, email, or facsimile.

/s/ Gerry Lynch

FAQs

Questions and Answers concerning our proposed pipeline project. Questions Addressed Here Include:

Pipelines and This Project:

- [What is the St Louis Natural Gas Pipeline Project?](#)
- [What is the purpose of the St Louis Natural Gas Pipeline Project?](#)
- [What is the proposed route of the pipeline?](#)
- [Why was this proposed route chosen?](#)
- [What will be the source of the natural gas?](#)
- [**Who are the end users of the delivered natural gas?**](#)
- [What is a natural gas pipeline and how does it work?](#)
- [Will individual homeowners be able to receive service directly from the new pipeline?](#)
- [Who will regulate the new pipeline?](#)
- [Will the new pipeline transport LNG, gasoline, or liquid petroleum products?](#)

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Who are the end users of the delivered natural gas?

Delivery interconnects are anticipated with Ladede Gas and Ameren, Mo. These pipelines in turn will transport the gas on to local utilities which provide service to end users in the Eastern States. Among these end users are individual homes, small and large businesses, and electric generating plants. In fact, a large portion of St Louis Natural Gas Pipeline's capacity will be used to supply fuel to natural gas power plants which provide clean, economical electricity.