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February 21, 2001

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The Honorable Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102-0360

Re: Case No. GR-2001-387

Dear Judge Roberts:

Enclosed for filing please find the original and eight copies of a Reply to Staff's Response.

Would you please see that this filing is brought to the attention of the appropriate Commission personnel?

Thank you.

Sincerely,

NEWMAN, COMLEY & RUTH P.C.

By: *Mark W. Comley*
Mark W. Comley *by CAM*

MWC:ab

Enclosure

cc: Hon. Morris Woodruff
Doug Micheel, Office of Public Counsel
Thomas R. Schwarz, General Counsel's Office
Michael C. Pendergast

FILED²
FEB 21 2001
Missouri Public
Service Commission

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

FILED²
FEB 21 2001
Missouri Public
Service Commission

In the Matter of Laclede Gas Company's Purchased)
Gas Adjustment Tariff Revisions to be Reviewed) Cases No. GR-2001-387
in its 2000-2001 Actual Cost Adjustment)

REPLY TO STAFF'S RESPONSE

COMES NOW Laclede Gas Company ("Laclede" or "Company") and for its
Reply to Staff's February 2, 2001, Response in Case No. GR-2001-382, states as follows:

1. On January 26, 2001, the Public Service Commission of the State of Missouri (the "Commission") filed an Order Directing Filing in Case No. GR-2001-382. In its Order, the Commission directed its Staff ("Staff") to respond to the request of the Office of the Public Counsel ("Public Counsel") for an Emergency Actual Cost Adjustment ("ACA") Review of Missouri Gas Energy's Purchasing Practices for the Winter 2000-2001 and Motion for Expedited Treatment. In particular, the Commission directed the Staff to address whether or not such a review should be undertaken with respect to each natural gas distributor with a tariffed Purchased Gas Adjustment ("PGA") clause and the timeline for such a statewide audit.

2. On or about February 2, 2001, the Staff filed its Response to the Office of the Public Counsel's Request for Emergency Review and Motion for Expedited Treatment in both Case No. GR-2001-382 as well as this proceeding. In its Response, the Staff recommended that the Commission "direct the Staff and OPC to monitor MGE's DCCB on a continuing basis; authorize Staff to file a complaint if circumstances warrant; waive the limitation on the number of PGA filings to permit a rate reduction if prices move downward; and direct that an audit of MGE's hedging activity for this ACA period

begin in Mid-March." (Staff's Response, p. 3). The Staff also suggested that a review of the hedging practices of other Missouri local distribution companies ("LDCs") was warranted, but did not suggest any specific timeframe for conducting such a review. (*Id.*)

3. On February 7, 2001, the Staff filed a Notice of Intent to File Supplemental Pleading in Case No. GR-2002-387 in which it indicated that it would provide more details about the process, timing and resource requirements of its proposed expedited hedging review with a supplemental pleading to be filed on February 13, 2001. Pursuant to that Notice, the Staff filed its Supplemental Response on February 13, 2001, in which it proposed that the Commission open a single docket to evaluate the gas procurement activities of each LDC and to establish what natural gas purchasing practices with respect to hedging were prudent. (Staff Supplemental Response, p. 2). The Staff also suggested that such a docket might "provide guidance on what can be done to moderate winter natural gas prices in the future." (*Id.*). Staff indicated that it would issue a report to the Commission by June 30, 2001.

4. Although Laclede intends to fully cooperate in any constructive effort to mitigate the impact of colder weather and higher wholesale gas prices on the bills paid by its customers, it has several concerns regarding Staff's proposal. First, to the extent the proceeding proposed by Staff is designed to evaluate whether the actions taken by LDCs this winter to procure and hedge their gas supplies were prudent, the Company believes such a proceeding is simply inapplicable to Laclede. As Staff knows, and as Public Counsel has previously recognized, the specific ratemaking treatment to be afforded the Company's hedging and gas procurement efforts is governed by the parameters set forth in the Company's Price Stabilization Program ("PSP") and Gas Supply Incentive Plan

("GSIP") tariff provisions on file with the Commission. Pursuant to those parameters, and the Company's performance thereunder, Laclede believes there is absolutely no basis for suggesting that any kind of prudence adjustment relating to Laclede's gas supply procurement and hedging activities this past winter is warranted or even permissible. Moreover, in contrast to other LDCs, Laclede's performance under these programs has already been subject to an ongoing review process by the Staff. Indeed, it was at the request of the Staff itself that two separate cases were established more than a year ago to monitor and evaluate on an ongoing basis the Company's performance under both the PSP and GSIP. *See* Case Nos. GO-2000-394 and GO-2000-395. In view of these considerations, Laclede believes that any retrospective prudence review of Laclede's hedging and gas supply procurement activities would be both impermissible and unnecessary and that nothing in Staff's generic proposal to conduct such reviews can or should be construed as modifying that basic fact.

5. Aside from these Laclede-specific considerations, the Company is also concerned about the overall focus and timing of Staff's proposals for providing "guidance on what can be done to moderate winter natural gas prices in the future." As previously noted, Laclede has just as great an interest as the Staff does in developing and implementing measures that will serve to reduce the kind of bill volatility that customers experienced this winter as a result of colder than normal weather and sharply higher wholesale gas prices. Laclede does not believe it is necessary, however, to conduct historical reviews of LDC purchasing practices to identify what those measures are.

6. On the price side, for example, it is already common knowledge that substantial protection from wholesale price increases can be achieved through the

implementation of financial instrument programs that effectively lock-in, or place a ceiling on, the prices that will be paid by the LDC for all or a portion of its gas supply requirements. Indeed, the Company's current PSP and its proposal to add an Experimental Fixed Price Program to its GSIP are two examples of these kind of programs. We also know that there are measures that can be taken tomorrow to reduce the impact that increased customer usage due to colder than normal weather has on bill volatility. Adopting rate designs that collect a greater proportion of the LDC's fixed gas supply and distribution costs through fixed rather than volumetric charges is one of them. Pursuing a weather normalization clause is another.

7. If adopted, each of these measures could make a material and immediate contribution toward avoiding the kind of bill volatility that customers across the country and in Missouri experienced this winter. It is highly unlikely, however, that their adoption, or the overall goal of bringing greater stability to rates, will be materially advanced by conducting retrospective reviews of the purchasing and hedging practices of Missouri LDCs. To the contrary, such efforts will only serve to divert critical resources and attention away from the only consideration that will ultimately determine whether this goal can be achieved, namely the willingness of those involved in the regulatory process to come together and take the kind of decisive action required to implement these measures.¹ Either we will be up to that task or we will not. For its part, Laclede has attempted through its recent filings, and will attempt again in a filing to be made in the near future, to propose those measures which it believes will accomplish this goal.

¹ Such an effort will also divert resources away from other proceedings that have been established by the Commission to discuss forward-looking solutions, including the case in which the Commission itself has created a task force for purposes of evaluating purchased gas cost recovery. See Case No. GW-2001-398.

Laclede sincerely hopes that these proposals will engender the kind of constructive discussions and cooperative actions that are the true keys to preventing a reoccurrence of this winter's events. Laclede also believes that the Commission can contribute immeasurably to such a result by reminding all parties that their first and most immediate obligation is to work together in finding solutions for the future rather than arguing over the past.

Wherefore, for the foregoing reasons, Laclede respectfully requests that the Commission take note of this Reply, and the recommendations set forth herein, in determining what future action to take in this matter.

Respectfully submitted,

Michael C. Pendergast

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CERTIFICATE OF SERVICE

I hereby certify that the foregoing Reply to Staff's Response 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 21st day of February, 2001.

Mark W. Comley
Mark W. Comley *by CAM*