

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION
JEFFERSON CITY
February 27, 2001**

CASE NO: GR-2001-387

Office of the Public Counsel
P.O. Box 7800
Jefferson City, MO 65102

General Counsel
Missouri Public Service Commission
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Kenneth J. Neises
Laclede Gas Company
720 Olive Street
St. Louis, MO 63101

Enclosed find certified copy of an ORDER in the above-numbered case(s).

Sincerely,

A handwritten signature in black ink that reads "Dale Hardy Roberts". The signature is written in a cursive, slightly slanted style.

**Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge**

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

ORDER SETTING PREHEARING CONFERENCE
AND REQUIRING FILING OF PROCEDURAL SCHEDULE

Procedural History:

On January 12, 2001, Laclede Gas Company (Laclede) sought an unscheduled Purchased Gas Adjustment rate increase. Certain other Missouri Local Distribution Companies (LDCs) also sought unscheduled PGA rate increases. The requested rate increases were approved by the Commission in late January.

On January 26, 2001, the Office of the Public Counsel (Public Counsel) filed a Request for an Emergency ACA Review and Motion for Expedited Treatment.¹ Public Counsel filed its Request in the cases established to consider the rate increases requested by other LDCs, but did not file its request in this case because it believes that the Commission lacks authority to undertake a prudence review of Laclede's gas purchasing activity outside of Laclede's tariffed Gas Supply Incentive Plan (GSIP).

¹ ACA stands for Actual Cost Adjustment.

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In its Request, Public Counsel explained that the gas procurement practices of the LDCs during the current 2000-2001 winter heating season would normally be audited by the Commission over a seven-to-ten-month period following the LDC's filing of its ACA rate in November 2001, resulting in a Staff recommendation no earlier than June 2002. Should any items be disputed, a contested case hearing procedure would be required, leading to a Commission Report and Order sometime in 2003. Thereafter, the parties may resort to the courts, leading to further delay. For these reasons, Public Counsel requests that the Commission "expeditiously" review the LDCs' gas procurement practices for the winter heating season of 2000-2001.

On January 26, in Case No. GR-2001-382, the Commission directed the Staff of the Missouri Public Service Commission (Staff) to

address whether or not such an audit should be undertaken with respect to each natural gas distributor with a tariffed PGA clause. Staff shall further advise the Commission as to the timeline of such a statewide audit, the necessary personnel and other resources, and whether a consultant or consultants from outside the Commission should be retained.

This response was made due by February 2.

Staff filed its response in Case No. GR-2001-382 on February 2. On the same date, Staff filed a copy of its response in this case. Staff stated that an ACA review is "an extensive and time-consuming process," requiring "an audit of all of a company's purchase, transportation and storage transactions, and a true-up of audited costs to its billed revenues." Staff asserted that such a review cannot begin until the company "closes its books for the

current ACA period." In the meantime, Staff suggests that it and Public Counsel should monitor the company's costs and ACA balance on a continuing basis and, in mid-March, begin a review of the company's "hedges, physical and otherwise, for the current ACA period," with a report to be filed by June 30, 2001. Staff also stated that such a review should be undertaken for all Missouri LDCs, including Laclede. Finally, Staff warns that undertaking a hedging review would result in delay to currently pending ACA audits.

On February 13, Staff filed a supplementary response to Public Counsel's request. Therein, Staff suggested that "the Commission open a single docket to examine the performance of all Missouri local distribution companies ("LDCs")." Staff avers that such a single case, "with the participation of all LDCs, will best provide the Commission the opportunity to examine what conditions led to the unscheduled filings this winter; why a few LDCs were able to avoid unscheduled filings this winter; and to establish what natural gas purchasing practices with respect to hedging were prudent." Additionally, Staff would require a consultant "to provide information on the strategies employed by large consumers of natural gas, and other LDCs throughout the nation, to deal with the price volatility this heating season." Staff proposes to produce a report by June 30, 2001. However, Staff cautions that this case would have "a significant affect on the Staff's resources," causing three to six months delay to other pending matters.

On February 21, Laclede filed a Reply to Staff's Response. Laclede pointed out that any retrospective prudence review of

Laclede's hedging and gas supply procurement activities would be both impermissible and unnecessary because the specific ratemaking treatment to be afforded such practices is governed by Laclede's Price Stabilization Program and Gas Supply Incentive Plan. Aside from its own situation, Laclede also suggests that historical reviews of LDC purchasing practices to identify how to moderate future winter natural gas prices, will not be effective.

Discussion:

Staff's latest proposal, in its supplementary response, is unnecessary because the Commission has already established a single case within which to review generic issues affecting natural gas rates: *In the Matter of a Commission Inquiry into Purchased Gas Cost Recovery*, Case No. GE-2001-398 (*Order Establishing Case and Creating Task Force*, issued January 23, 2001). That case was expressly established to "investigate the process for the recovery of natural gas commodity cost increases by LDCs from their customers" and it is the appropriate forum in which to consider each LDC's gas supply plan for price stability, flexibility, price protection, alternatives, and purchasing rationales.

The Commission has determined that the best way to proceed is within the context of the existing ACA process. Therefore, the Commission will convene a prehearing conference in each LDC's current ACA case in order to permit the parties to cooperatively develop an appropriate procedural schedule to permit the completion of the normal ACA review as quickly and efficiently as possible.

The goal shall be resolution by the Commission of any contested issues by the end of the present calendar year rather than sometime in 2003 as Public Counsel warned in its request. In the event that Staff believes that this work cannot be completed by the date herein stated, Staff shall promptly so notify the Commission.

Prehearing Conference and Proposed Procedural Schedule:

At the prehearing conference, the parties' representatives should be prepared to cooperate in developing a procedural schedule designed to permit completion of the ACA review, and resolution by the Commission of any contested issues, by December 31, 2001. The parties shall jointly file the proposed procedural schedule. The proposed procedural schedule shall establish dates for necessary steps in the ACA review process and shall include dates for the pre-filing of direct, rebuttal and surrebuttal testimony according to Commission rule, the filing of a joint list of issues, a statement by each party of its position on each issue, and a list of witnesses. The proposed procedural schedule shall also establish dates for a hearing no later than November 30, 2001.

IT IS THEREFORE ORDERED:

1. That a prehearing conference shall be held on March 21, 2001, beginning at 10:00 a.m. The prehearing will be held at the Commission's offices in the Governor Office Building, 200 Madison Street, Jefferson City, Missouri, a building that meets the accessibility standards required by the Americans with Disabilities Act. If you need additional accommodations to participate in this

prehearing, please call the Public Service Commission's Hotline at 1-800-392-4211 (voice) or 1-800-829-7541 (TDD) prior to the hearing.

2. That the parties shall jointly prepare and file a proposed procedural schedule no later than March 28, 2001.

3. That this order shall become effective on March 9, 2001.

BY THE COMMISSION

A handwritten signature in black ink, appearing to read "Dale Hardy Roberts". The signature is written in a cursive, somewhat stylized script.

Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

(S E A L)

Morris L. Woodruff, Senior Regulatory
Law Judge, by delegation of authority
pursuant to Section 386.240, RSMo 2000.

Dated at Jefferson City, Missouri,
on this 27th of February, 2001.

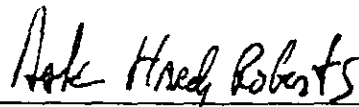
STATE OF MISSOURI

OFFICE OF THE PUBLIC SERVICE COMMISSION

I have compared the preceding copy with the original on file in this office and
I do hereby certify the same to be a true copy therefrom and the whole thereof.

WITNESS my hand and seal of the Public Service Commission, at Jefferson City,
Missouri, this 27th day of February 2001.





Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge