

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GC-2011-0294, St. Louis Natural Gas Pipeline, LLC
v. Laclede Gas Company

FROM: Lesa A. Jenkins, P.E., Regulatory Engineer - Procurement Analysis Department
David M. Sommerer, Manager - Procurement Analysis Department

Lesa A. Jenkins 06/30/11 Lera L. Shemwell 06/30/11
Project Coordinator/Date Staff Counsel Division /Date

SUBJECT: Staff's Report to Commission Regarding Complaint of St. Louis Natural Gas Pipeline, LLC v. Laclede Gas Company

DATE: June 30, 2011

INTRODUCTION

St. Louis Natural Gas Pipeline, LLC (SLNGP), filed a complaint against Laclede Gas Company (Laclede) on March 22, 2011. This filing is docketed as Case No. GC-2011-0294. SLNGP's complaint alleges that Laclede has improperly and illegally refused to interconnect with an interstate natural gas pipeline that SLNGP is proposing to build to connect the St. Louis area with the NGPL interstate pipeline in Illinois. The Commission's May 26, 2011 Order directs Staff of the Missouri Public Service Commission (Staff) to investigate the allegations raised in St. Louis Natural Gas Pipeline's complaint and report its findings to the Commission no later than July 1, 2011.

SLNGP's complaint at paragraphs 22 and 23 alleges the following violations.

22. The above-described facts indicate that Laclede is or will be violating numerous provisions of Missouri gas regulations and statutes, to-wit:
- a. Violation of 4 CSR 240-40.015 and/or 4 CSR 240-40.016 because refusal of interconnection with SLNGP provides a financial advantage to LER, an affiliate of Laclede.
 - b. Violation of 4 CSR 240-40.018 because refusal of interconnection with SLNGP represents a failure on the part of Laclede to structure its portfolio of transportation contracts to mitigate upward natural gas price spikes and provide a level of stability of delivered natural gas prices;
 - c. Violation of section 393.130.1, RSMo, because refusal of interconnection with SLNGP will result in service instrumentalities and facilities that are less safe,

Appendix A

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less adequate, unjust and unreasonable, as well as unjust and unreasonable charges, in light of the SLNGP transport option;

d. Violation of section 393.130.3, RSMo, because refusal of interconnection with SLNGP represents an undue and unreasonable preference and advantage to Laclede's existing affiliated and non-affiliated transporters and subjects SLNGP and Laclede gas consumers to undue and unreasonable prejudice and disadvantage;

e. Violation of section 393.140(5), RSMo, because refusal of interconnection with SLNGP is unjust, unreasonable, unjustly discriminatory, unduly preferential and otherwise in violation of law; and

e. (sic) Violation of section 393.140(11), RSMo, because refusal of interconnection with SLNGP represents a failure to regularly and uniformly extend a contract to SLNGP, similar to its other transport contracts.

23. Laclede's refusal constitutes an unlawful barrier to SLNGP's entry into the market of gas transport service to Missouri consumers, unlawfully and unfairly denies effective competition, unlawfully favors a Laclede affiliate, unlawfully discriminates against SLNGP and confers an unfair competitive advantage to MRT and LER. On information and belief, the refusal also violates state and federal antitrust and unfair competition laws.

In this Report, Staff does not address the legal issues raised by SLNGP and Laclede, or the Office of the Public Counsel regarding the Commission's jurisdiction to address this Complaint. Below, Staff addresses the factual issues raised, based on the information it received as of June 24, 2011.

STAFF RECOMMENDATION

As a result of the information discussed below, Staff recommends the Commission direct the parties to resume negotiations to determine whether they can agree to terms in an interconnection agreement. Staff counsel has advised Staff that both Laclede and SLNGP have indicated willingness to enter into such discussions.

Staff's review indicates SLNGP and Laclede dispute certain key economic facts including:

- Costs to Laclede for an interconnection
- Existing transportation charges to Laclede
- Gas supply benefits and costs related to SLNGP project

Staff review of potential pipeline projects in this and other cases indicates a pipeline and the LDC often have multiple discussions or exchanges of information to clarify costs and benefits or

seek reduced costs for proposed projects. The costs and benefits change over time as conditions change or as the project is further developed.

Based on Staff's investigation, Staff has concluded that discussions between SLNGP and Laclede have not matured enough to warrant a Staff recommendation of whether Laclede was imprudent in not pursuing an interconnect agreement with SLNGP. So long as there is truly no cost to Laclede, Laclede should be indifferent to entering into an interconnection agreement. The project will still require FERC approval. With that in mind, Staff recommends Laclede and SLNGP seek to clarify the level of costs and the potential benefits to Laclede and its customers for the proposed SLNGP pipeline service. Resolution or at least mutual understanding on these issues, may lead to the parties' agreement to enter into a reasonable interconnection agreement. For example, Laclede could propose an interconnection agreement with no upfront costs to it, and add detail that would address its concerns regarding cost risks. To assist in reaching agreement, there may be an industry standard contract that could provide the basis for such agreement.

In this case, Staff does not have documentation to support SLNGP's allegations of:

- Unfair competitive advantage to Mississippi River Transmission (MRT) or Laclede Energy Resources (LER);
- Safety or adequacy concerns with Laclede's existing contracted pipeline capacity; or
- Undue and unreasonable preference and advantage to Laclede's existing affiliated and non-affiliated transporters and subjects SLNGP and Laclede gas consumers to undue and unreasonable prejudice and disadvantage.

SLNGP indicates it has requested potentially responsive information in discovery from Laclede, but the Commission has ordered that Laclede not answer those data requests at this time.

Because some of the SLNGP allegations pertain to general benefits of newer pipeline construction, Staff believes this is another reason further discussion between Laclede and SLNGP would clarify the costs and benefits for the proposed SLNGP project. Such discussions could alleviate SLNGP concerns regarding these allegations. Staff again recommends SLNGP and Laclede seek to clarify the costs and benefits to Laclede for the proposed SLNGP pipeline service.

Staff supports Local Distribution Company (LDC) efforts to continually evaluate potential new supply and pipeline transportation opportunities for implications regarding the cost of natural gas supply in the future, operational flexibility, and transportation and supply reliability.

STAFF REVIEW

Staff reviewed and evaluated SLNGP and Laclede information provided in the various filings and the responses to data requests (DR). Because of the deadline for the Staff report, Staff requested the parties respond to the data requests on an expedited basis. SLNGP informed Staff Counsel it was not able to respond in the requested time and requested an extension to the normal twenty-day due date for DR responses, to which Staff Counsel agreed. To have adequate time to review the information still outstanding, the parties were asked to have all DR responses to Staff no later than 5:00 p.m. June 24, 2011. Laclede provided some of its responsive information June 13, 2011 and June 21, 2011. Other Laclede information was provided in a June 22, 2011 meeting in which Staff was allowed to take notes, but not have copies of the information. Laclede limited the time for discovery to 2:00 p.m. that day. Laclede later agreed to make the documents available again for Staff review. The parties agreed to a date of June 27, 2011 for the continued Staff review of the documents, which were available to Staff on that date, but again, Staff was not allowed to make any copies. SLNGP information was received June 23, 2011 and June 24, 2011.

Staff has the following comments and concerns regarding the proposed SLNGP project and Laclede's actions related to the proposed SLNGP project:

1. SLNGP and Laclede dispute certain key economic facts.
 - a. SLNGP and Laclede dispute the costs to Laclede for an interconnection. The March 22, 2011 SLNGP complaint states at paragraph 13, SLNGP's proposal does not ask or require Laclede to contribute to the cost of construction in any way.

However, the SLNGP complaint contains information that indicates other potential costs to Laclede in addition to construction.

Paragraph 10 of the SLNGP complaint states the purpose of the interconnection is to sell transport services to Laclede Gas as well as to use Laclede's distribution facilities for the sale of transport services to other customers. Staff notes there would be costs to Laclede for any transport agreement/contract with SLNGP.

The Draft Facilities Interconnect Agreement, attached as Appendix C (Public) to the SLNGP complaint includes costs to Laclede at section 4) as follows:

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The Draft Facilities Interconnect Agreement, attached as Appendix C (Public) to the SLNGP complaint includes costs to Laclede at section 4) as follows:

Operation and Maintenance of Facilities

Following completion of construction and commissioning of the Interconnect, Laclede shall own, operate and maintain the Laclede Facilities, at its sole cost and expense. Company shall not operate any of the Laclede Facilities or other facilities owned by Laclede.

DR responses of SLNGP and Laclede offer different interconnect operational cost estimates. The estimated interconnect costs are summarized in Attachment 1- HC.

In its April 21, 2011 *Laclede Motion to Dismiss, Answer to Complaint and Response to Request for Investigation*, Laclede identifies additional costs related to the SLNGP proposal beyond the construction costs. Laclede refers to costs related to items such as the following: transportation agreement, if signed; investment stake; costs of operating and maintaining the proposed interconnect.

The Laclede response to DR No. 6 also identifies potential financial costs, which includes Laclede's estimate of the annual interconnect operational cost. These costs are also summarized in Attachment 1- HC.

Staff review of potential pipeline projects in this and other cases indicates a pipeline and the LDC often have multiple discussions or exchanges of information to clarify costs or seek reduced costs for proposed projects. The costs change over time as conditions change or as the project is further developed. Staff recommends Laclede and SLNGP seek to clarify the costs to Laclede for the proposed pipeline service. For example, Laclede could propose an interconnection agreement with no upfront costs to it, and add detail that would address its concerns regarding cost risks.

- b. SLNGP and Laclede dispute existing transportation charges to Laclede.

On page 8 of its May 12, 2011 *Response in Opposition to Laclede Gas Company's Motion to Dismiss*, SLNGP states that its proposed pipeline will benefit Laclede's customers because it would allow Laclede access to NGPL (and the gas sourced off of that pipeline) at a rate of 7 to 8.5 cents per MMBtu, while Laclede's existing rate for access to NGPL through the CenterPoint-MRT is approximately 20 cents per MMBtu. The SLNGP proposed rates are summarized in Attachment 2 – HC.

In its May 23, 2011 *Reply to Responses of SLNGP, Staff and O PC* (paragraphs 13 to 16), Laclede disputes SLNGP's statements regarding the transportation charges.

Staff believes there may have been a misunderstanding by SLNGP of the monthly rate as a daily rate and/or inclusion of field zone capacity in the calculation, or some other misunderstanding. SLNGP provides no documents in response to Staff data requests to oppose Laclede's price calculation related to CenterPoint-MRT transportation charges.

Staff reviewed the Laclede responses and the CenterPoint Energy – Mississippi River Transmission (CEGT-MRT) FERC Tariff. The relevant FERC tariff sheet is included as Attachment 3, Public. Based on the information provided, the appropriate consideration or comparison in this review is the market zone rate. The market zone only reservation charge is \$2.0151 per Dth. This is not a daily charge, but a monthly charge. To obtain the daily rate, the \$2.0151 reservation charge for the market zone must be divided by the average number of days in a month (30.4), which is a rate \$0.0663 per MMBtu. The usage charge of \$.0033 is added for a total of \$.0696 per Dth per day.

CEGT-MRT Firm Transportation Service (FTS)	Base Rate		
	Reservation Charge	Usage Charge	Daily Rate
FERC Gas Tariff Sheet No. 7; effective 1/1/11			
Market Zone Only	2.0151	0.0033	0.0696
Field Zone Only	2.1945	0.0015	0.0737
Field Zone and Market Zone	4.2096	0.0048	0.1433

Thus, the comparison is \$0.0696 for Laclede's current rates and ** _____
_____ ** for SLNGP's future proposed rates (previously included as
Attachment 2 – HC).

- c. SLNGP and Laclede dispute gas supply benefits and costs related to SLNGP project.

In its March 22, 2011 complaint, SLNGP states at paragraph 17, the increased supply made possible by SLNGP's pipeline would permit natural gas to be provided to Laclede's customers at a cost lower than currently being charged.

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The January 28, 2011 Laclede letter, attached as Appendix E (Public) to the March 22, 2011 SLNGP complaint, indicates Laclede has concluded that the SLNGP project does not fit Laclede's current gas supply needs. Laclede further indicates it has no interest in negotiating an interconnection agreement with St. Louis Pipeline and has no interest in an investment position in the venture at this time. Laclede does not include any other information in its letter regarding its evaluation of any conditions that are lacking in the SLNGP project proposal.

Laclede's response to DR2, received June 13, 2011, not marked as HC or Public, included as Attachment 4 - HC, compares the Laclede system purchases for the period of October 2010 through April 2011 to the gas available from Rocky Mountains Express Pipeline (REX) using the Index prices for the Lebanon Hub and the REX Clarington Hub, but provides no references to its or other estimates of future costs.

SLNGP's proposal does not address current gas supply needs, as the proposed project would not be in service for the upcoming winter. SLNGP provides highly confidential information dated May and June 2011 regarding cost of supply for Laclede gas sourced from the proposed SLNGP. (Supporting documents are contained in Exhibit D to the SLNGP DR responses, received June 23, 2011, HC, included as Attachment 5). Based on the dates of these documents, SLNGP did not provide this information to Laclede during discussions of the economics of the proposed SLNGP project.

Laclede claims it already has access to the same gas supplies on the REX that would be sourced through the proposed SLNGP, but without the proposed pipeline's incremental cost (Paragraph 20 of Laclede's May 23, 2011 Reply to Responses of SLNGP, Staff and OPC). Laclede does not comment on whether it would benefit from additional supplies from REX or whether such considerations would include further diversity of transportation and supply portfolio.

SLNGP follows up with the February 14, 2011 letter to Laclede, included as Attachment 6 - HC, sent via certified mail, stating among other things that: ** _

** There is no indication that Laclede responded to this letter. Perhaps this lack of response left SLNGP with the belief that the only alternative it had to continue negotiations was to file a complaint with the Commission.

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Staff review of potential pipeline projects in this and other cases indicates a pipeline and the LDC have multiple discussions or exchanges of information to clarify costs and benefits or seek reduced costs for proposed projects. The costs and benefits change over time as conditions change or as the project is further developed. Staff recommends SLNGP and Laclede seek to clarify the benefits to Laclede for the proposed pipeline service. For example, Laclede could propose an interconnection agreement with no upfront costs to it, and add detail that would address its concerns regarding cost risks.

2. SLNGP alleges an unfair competitive advantage to MRT and LER.

Neither SLNGP nor Laclede provided documents in response to Staff data requests to support the allegation of unfair competitive advantage to MRT or LER. (Staff DR Nos. 3, 4, 9, 12, 13, 20) SLNGP indicates it has requested potentially responsive information in discovery from Laclede, but the Commission has ordered that Laclede not answer those DRs at this time.

In other continuing cases with Laclede, the Staff has expressed concerns over the inter-relationship of LGC's supply/transportation/storage portfolio and LER's supply/transportation/storage portfolio. Some of the dispute in the other cases relates to access to LER records. No specific data has been provided by SLNGP or Laclede which would answer or resolve Staff's concerns in those cases.

3. SLNGP alleges failure on the part of Laclede to structure its portfolio of transportation contracts to mitigate upward natural gas price spikes and provide a level of stability of delivered natural gas prices.

Staff's review and recommendation is the same as that is section 1 b and c of this Staff Report.

4. SLNGP alleges refusal of interconnection with SLNGP will result in service instrumentalities and facilities that are less safe, less adequate, unjust and unreasonable, as well as unjust and unreasonable charges.

Neither SLNGP nor Laclede provided documents to support any safety or adequacy concerns with Laclede's existing contracted pipeline capacity. SLNGP offers general comments regarding ** _____

** (SLNGP response to
DR16, Exhibit C, HC, February 14, 2011 letter from SLNGP to Laclede, previously

included as Attachment 6 - HC). SLNGP indicates it has requested potentially responsive information in discovery from Laclede, but the Commission has ordered that Laclede not answer those DRs at this time.

5. SLNGP alleges undue and unreasonable preference and advantage to Laclede's existing affiliated and non-affiliated transporters and subjects SLNGP and Laclede gas consumers to undue and unreasonable prejudice and disadvantage.

This allegation may pertain to transportation agreements with pipelines, agreements with Laclede's affiliate LER, and/or supplies available to end-use transportation customers.

Neither SLNGP nor Laclede provided documents in response to Staff data requests (Staff DR Nos. 3, 4, 8, 9, 12, 13, 20) to support the allegation of undue and unreasonable preference and advantage to Laclede's existing agreements with pipelines or undue and unreasonable preference and advantage to LER. SLNGP indicates it has requested potentially responsive information in discovery from Laclede, but the Commission has ordered that Laclede not answer those DRs at this time. Regarding supplies available to end-use transportation customers, Laclede states it ** _____

** (Laclede response to DR No. 8, HC).

6. Staff's Recommendation is the Commission encourage the parties to the case to negotiate to determine if a mutually acceptable interconnection agreement can be reached.
7. Staff Counsel has advised Staff that both Laclede and SLNGP have indicated willingness to negotiate.

LIST OF ATTACHMENTS

Attachment 1, HC	Summary of Estimated Interconnect Costs and Other Potential Financial Costs
Attachment 2, HC	Summary of SLNGP Project Estimated Rates
Attachment 3, Public	CEGT-MRT FERC Tariff, Sheet No. 7.
Attachment 4, HC	Laclede's Comparison of Its Purchase Costs to the Natural Gas Costs for REX Supplies, Using the Index prices for the Lebanon Hub and the REX Clarington Hub
Attachment 5, HC	SLNGP Information Regarding Cost of Supply for Laclede Gas Sourced From the Proposed SLNGP.
Attachment 6, HC	February 14, 2011 letter from SLNGP to Laclede

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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

AFFIDAVIT OF LESA JENKINS

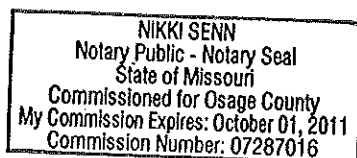
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)


Lesa Jenkins, being of lawful age, on her oath states: that as a Utility Regulatory Engineer in the Procurement Analysis Department of the Utility Services Division, she has participated in the preparation of the foregoing report, consisting of 10 pages to be presented in the above case; that the information in the Staff Recommendation was developed by her; that she has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of her knowledge and belief.



Lesa Jenkins

Subscribed and sworn to before me this 30th day of June, 2011.





Notary Public

ATTACHMENT 1

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY

ATTACHMENT 2

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY

ATTACHMENT 3

St. Louis Natural Gas Pipeline, LLC, Complainant

vs.

Laclede Gas Company, Respondent

Case No. GC-2011-0294

June 30, 2011

CURRENTLY EFFECTIVE RATES
 FIRM TRANSPORTATION SERVICE
 Rates Per Dth

	<u>Base Rate</u>	<u>Sec. 21</u>	<u>Maximum Rate</u>	<u>Minimum Rate</u>	<u>Fuel Use</u>	<u>LUFG</u>
<u>RATE SCHEDULE FTS</u>						
For Transportation Between:						
Field Zone and Market Zone						
- Reservation Charge	\$4.2096	-	\$4.2096	-	-	
- Usage Charge	\$.0048	\$.0019	\$.0067	\$.0067	1.03%	0.58%
- Authorized Overrun	\$.1432	\$.0019	\$.1451	\$.0067	1.03%	0.58%
Field Zone Only						
- Reservation Charge	\$2.1945	-	\$2.1945	-	-	
- Usage Charge	\$.0015	\$.0019	\$.0034	\$.0034	0.43%	0.58%
- Authorized Overrun	\$.0736	\$.0019	\$.0755	\$.0034	0.43%	0.58%
Market Zone Only						
- Reservation Charge	\$2.0151	-	\$2.0151	-	-	
- Usage Charge	\$.0033	\$.0019	\$.0052	\$.0052	0.60%	0.58%
- Authorized Overrun	\$.0696	\$.0019	\$.0715	\$.0052	0.60%	0.58%

Notes are shown on Sheet No. 19.

ATTACHMENT 4

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY

ATTACHMENT 5

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY

ATTACHMENT 6

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY