Exhibit No.:	
Issue:	Rate Design; Weather Mitigation Clause Gas Supply Incentive Plans; Low Income Energy Assistance Program
Witness:	Michael T. Cline
Type of Exhibit:	Direct Testimony
Sponsoring Party:	Laclede Gas Company
Case No.:	GR-2005-0284
Date Testimony Prepared:	February 18, 2005

LACLEDE GAS COMPANY

GR-2005-0284

DIRECT TESTIMONY

OF

MICHAEL T. CLINE

FEBRUARY 2005

TABLE OF CONTENTS

DIRECT TESTIMONY OF MICHAEL T. CLINE

Q. Please state your name and address?

A. My name is Michael T. Cline and my business address is 720 Olive Street, St. Louis, Missouri 63101.

Q. What is your present position?

A. I am Director of Tariff and Rate Administration at Laclede Gas Company ("Laclede" or "Company").

Q. Please state how long you have held your present position, and briefly describe your responsibilities.

A. I was promoted to my present position in August 1999. In this position I am responsible for administration of Laclede's tariff. In addition, I perform analyses pertaining to Laclede's purchased gas costs and various federal and state regulatory matters which affect Laclede.

Q. What is your educational background?

A. I graduated from St. Louis University in May 1975, with the degree of Bachelor of Science in Business Administration, majoring in economics.

Q. Please describe your experience with Laclede.

A. I joined Laclede in June 1975 and have held various positions in the Budget, Treasury, and Financial Planning departments of the Company. In 1987, I began work in areas related to many of my duties today.

Q. Have you previously submitted testimony before regulatory bodies?

A. Yes. I have testified before this Commission, the Illinois Commerce Commission and the Federal Energy Regulatory Commission.

PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony in this proceeding?

A. My testimony explains the manner in which the rate schedules filed by the Company on February 18, 2005, were revised to reflect the annual revenue increase of $39.0 million requested by the Company in this case. In addition, I will discuss: 1) continuation of the weather mitigation rate design that was approved in the Company's last rate case; 2) the Company's proposal in this proceeding to modify its Purchased Gas Adjustment ("PGA") clause to include gas inventory carrying costs and bad debt gas costs in its recovery of gas costs through PGA rates; 3) several other miscellaneous ratemaking issues; 4) the tariff sheets pertaining to the Company's new Gas Supply Incentive Plan; 5) certain other tariff changes; 6) the Company's proposed funding of a Low-Income Energy Assistance Program; 7) certain cost of service and other data that the Company agreed to provide to parties in the settlement of the last rate case; and 8) the Company's position regarding the possible future ratepayer-sourced funding of research and development through the Gas Technology Institute.

ALLOCATION OF PROPOSED RATE INCREASE

Q. Please explain how Laclede's rates were adjusted to produce the additional revenues requested by Laclede.

A. The first step in determining the new rates was to allocate the $39.0 million revenue increase to each individual rate schedule. This was done by multiplying the non-gas revenues in each rate schedule by a uniform percentage.

Q. What do you mean by non-gas revenues?

A. Non-gas revenues represent that portion of Laclede's revenues which recover Laclede's cost of service, other than the cost of purchased gas, and were derived by multiplying the billing determinants associated with each of the Company's rate schedules by the non-gas rates stated in Sheet Nos. 2 through 11 and Sheet No. 34 of the Company's tariff.

Q. What billing determinants did you use to allocate the proposed rate increase?

A. I used normalized determinants for the twelve months ended September 2004, consistent with the establishment of the revenue requirement in this case.

Q. How did you derive the uniform percentage increase that was applicable to the non-gas revenues of each rate schedule?

A. The percentage was derived by dividing the $39.0 million non-gas revenue increase requested in this proceeding by Laclede's total current normalized non-gas revenues of $238 million, excluding revenues from the Company's Infrastructure System Replacement Surcharge ("ISRS").

Q. What impact did Laclede's non-gas revenue allocation have on the total revenues produced under each rate schedule?

A. The additional revenues expressed as a percent of total normalized current revenues will vary by rate schedule as shown in Schedule MTC-1. Overall, the revenues of the Company would increase by 4.1% as a result of the Company's rate filing compared to the Company's existing revenues including ISRS.

Q. Why is the percentage increase for the LVTSS rate schedule larger than the percentage increase under most of Laclede's other rate schedules?

A. Since LVTSS customers purchase most of their gas from third parties, LVTSS revenues exclude a significant amount of gas costs which will not be billed by Laclede. In contrast, Laclede's sales rates cover all costs, including gas costs. Thus, it is axiomatic that LVTSS revenues will increase by a larger percentage than most other rates simply because the LVTSS revenue base is much smaller due to the exclusion of most gas costs. If LVTSS customers' total costs for natural gas service (Laclede transportation service as well as the cost of gas) is used as the base from which Laclede's proposed increase is measured, as is the case with the other rate schedules, the percentage for LVTSS customers would be lower and more in line with the increases for customers purchasing gas from Laclede under other rate schedules.

Q. After allocating the rate increase to each rate schedule in proportion to the non-gas revenues derived from such schedule, how were the charges within each rate schedule adjusted to produce the allocated increase?

A. I increased all charges within each rate schedule by approximately the same uniform percentage of overall non-gas revenues that I mentioned earlier.

Q. Were any other rates adjusted as a result of the Company's proposed increase?

A. Yes. The Infrastructure System Replacement Surcharge ("ISRS") amounts reflected on Sheet No. 12 were reduced to zero as required by statute with the Company's filing of a new rate case.

Q. What impact would the general rate increase proposed by the Company in this proceeding have on the bill of a typical residential heating customer?

A. The annual gas bill of a typical residential heating customer would increase by approximately 4.2%. This translates into an average monthly increase of approximately $4.02, or $48 on an annual basis.

WEATHER MITIGATION RATE DESIGN

Q. Is the Company recommending continuation of the weather mitigation rate design ("WMRD") that was approved in the Company's last rate case?

A. Yes. The WMRD has been successful in helping the Company achieve a better matching of its revenues to its costs of providing distribution service.

Q. Please explain.

A. Prior to implementation of the WMRD, the Company's distribution revenues were highly dependent on, and fluctuated with, the weather. A mismatch would result because most of the Company's costs, other than the cost of gas, are fixed. As described in more detail in the testimony filed by the Company in its past rate case proceedings, these costs do not fluctuate with the weather. For example, the Company does not reduce its employee levels or physical plant used to provide service just because its sales volumes have decreased temporarily as a result of one winter season being warmer than another. As a result, prior to implementation of the WMRD, the reduction in sales volumes attributable to warmer than normal weather would cause the Company to under-recover its distribution costs and fail to earn its authorized rate of return. Likewise, an increase in sales volumes attributable to colder than normal weather under the Company's former rate design, everything else being equal, would cause the Company to over-recover its costs and potentially achieve earnings in excess of

its authorized return. Implementation of the WMRD in the last rate case has significantly alleviated this mismatch of revenues and costs.

Q. Please describe the Company's WMRD.

A. In the settlement of the last rate case the Company designed its charges for gas used, or volumetric charge, in its General Service rate schedules so that during the winter season, from November through April, all of the Company's non-gas, distribution charges, other than customer charges, are billed to customers based solely on their consumption in the first rate block.

Q. Please explain.

A. There are two rate blocks in each of the Company's General Service rate schedules, meaning that, for residential customers for example, one set of charges applies to the first 65 therms used during the month and another set of charges applies to consumption in excess of 65 therms. These charges consist of a charge for Laclede's distribution service and a charge to recover Laclede's gas costs or PGA. During the winter season the Company's distribution charge only applies to consumption in the first rate block. There is no charge for distribution service in the second rate block. The Company's PGA rate, on the other hand, applies to consumption in each rate block. However, as agreed to in the last rate case settlement, in order to prevent the WMRD from altering the total rates paid by each customer, when measured against the Company's former rate design, the PGA for consumption in the first rate block is lower than the PGA for consumption in the second rate block.

Q. Why is that necessary?

A. Under the Company's former rate design, the Company applied a distribution charge in both rate blocks, with the first block charge being only slightly higher than the second block charge, while the same PGA rate applied to both rate blocks. Thus, under the Company's WMRD, and with the objective of keeping the total rate charged to the customer the same in both rate blocks, the increase in the first block distribution charge necessitated a decrease in the first block PGA rate and the elimination of the second block distribution charge resulted in an increase in the second block PGA rate.

Q. Are the rate blocks different for Commercial and Industrial customers?

A. Yes, there are different rate blocks for each of the three Commercial and Industrial general service rate schedules. However, in each rate schedule, as with the residential customers, the Company's distribution charges only apply to the first rate block during the winter and the PGA rates in each block were adjusted to maintain the same total volumetric rate.

Q. How does the WMRD provide for a better matching of revenues to costs than the former rate design?

A. Since the first rate block for each general service rate schedule is not particularly weather sensitive in most winter months it follows that the amounts billed to customers to cover the Company's distribution costs under the WMRD are relatively stable from one winter season to the next and are less sensitive to weather. Thus, the Company's revenue stream is more likely to match the costs that the Company's rates were designed to cover.

Q. Was the WMRD experimental?

A. No, it was not. Even though Laclede's WMRD is unique among local distribution companies ("LDCs"), it appeared to be the only way acceptable to all parties in the last rate case for Laclede to ameliorate the impact of weather on its recovery of distribution costs without being subject to legal challenges in Missouri because of the Missouri Supreme Court's 1979 decision in State ex rel Utility Consumers Counsel of Missouri Inc. v. Public Service Commission ("UCCM case").

Q. What is the relevance of the UCCM case?

A. For years now many LDCs in other states have operated under weather normalization clauses designed to stabilize their distribution revenues. These clauses automatically adjust the LDCs' rates to offset the impact of weather. However, some have argued that the UCCM case prohibits these types of clauses in Missouri. Thus, the unique advantage of the Company's WMRD is that it enables Laclede to stabilize its distribution revenue stream without a weather clause and allegedly running afoul of UCCM.

Q. Has the Company's WMRD been 100% effective in eliminating the impact of weather on the Company's recovery of its distribution costs?

A. No, it has not been 100% effective nor was it expected to be. Unusually warm weather in shoulder months, such as November and April, can still subject the Company to earnings losses due to weather.

Q. Why is that?

A. Since the weather in these months is normally warmer than the other winter months, customers are less likely to use all of the therms in the first rate block. Because of weather, block 1 usage may vary substantially in these months from

year to year, unlike the other winter months when many customers' usage exceeds the first rate block. Thus, if block 1 billing determinants are based on normal weather in these shoulder months, and the weather turns out to be warmer than normal, the Company is likely to under-recover its distribution costs.

Q. What about from the standpoint of customers? How have they been impacted?

A. Compared to the Company's former rate design of its General Service rate schedules, customers could ultimately end up paying slightly more or less than they formerly did depending on whether the weather is colder or warmer than normal. If the weather is warmer than normal, customers will pay more. And conversely, if the weather is colder than normal, customers will pay less. Furthermore, customers should have an equal chance of paying more or less than under the former rate design and the small amount by which they could gain or lose, depending on the weather, is symmetrical. Finally, irrespective of whether the customers are winners or losers in comparison to the former rate design, customers will be paying closer to what they should be paying for distribution service.

Q. I thought that the Company's WMRD had no affect on what customers pay. If so, why did you state that customers could realize some small gains or losses?

A. Since, compared to the former rate design, total revenues, excluding the Actual Cost Adjustment component of the Company's PGA, remain unchanged while the Company's distribution revenues remain relatively constant, the Company's recovery of gas costs is increased or decreased. The increase or decrease in gas cost recovery will create a relatively small corresponding decrease or increase in

the customers' ACA charges in the subsequent year which, in turn, causes customers' bills to ultimately increase or decrease.

Q. What was the effect of the WMRD on the Company and its customers during the first two years of its operation?

A. Since the WMRD did not become effective until November 9, 2002 on a prorata basis, the full impact of the WMRD was not realized in the 2002/2003 winter season. However, assuming that it had been in effect for the entire winter, residential customers paid slightly less for service in the following year than they would have paid under the prior rate design. Conversely, customers will pay several million dollars more for service as a result of weather during the winter of 2003/2004 then they would have under the pre-existing rate design. In both years, however, General Service customers were billed for distribution charges that more closely reflected the Company's fixed costs to provide service.

Q. Has there been any adverse reaction from customers from the Company's WMRD?

A. No. And I am not surprised that there has been no such reaction since the WMRD keeps the total rate to the customer, excluding ACA, the same. Furthermore, as I just described, the ACA adjustment in the subsequent year's bills, which can be either positive or negative, on an individual customer basis is relatively small, amounting to approximately 1% of a typical residential customer's annual bill.

Q. If this impact is relatively small, why is it of so much importance to the Company?

A. Although the impact to the customer is relatively small, the impact to the Company is large when aggregated over 600,000 customers.

Q. In its last rate case, Missouri Gas Energy ("MGE") proposed a WMRD that was rejected by the Commission. In light of the Commission's decision, why should the WMRD now be continued for Laclede?

A. The most important reason for continuing WMRD for Laclede is that, after two full years of experience with the WMRD, Laclede has been able to validate the benefits to both the Company and the customers that were anticipated from such a rate design.

Q. What concerns were raised in MGE's case that you believe are inapplicable to Laclede's WMRD?

A. The concerns dealt with price signals, conservation, weather risk and customer impact.

Q. Does the Company's WMRD send incorrect price signals?

A. No. In fact, the WMRD permits a better, more accurate price signal to be sent to customers. Gas costs account for 2/3 of a customer's bill and it's the variable cost of this gas that customers should be responding to. A correct price signal would be one in which there is a correlation between the price of gas and the reduction in cost that would occur if the quantity of gas consumed is reduced. This is the case with respect to the variable cost of gas purchased by Laclede. However, this is not the case with respect to Laclede's distribution costs, which as described above, are relatively fixed and are not reduced or increased if the quantity of gas consumed is reduced or increased. As a result by charging customers for variable

costs on a variable basis and for fixed costs on a more fixed basis, the WMRD sends the proper price signal.

Q Does the Company's WMRD discourage conservation?

A. No. In fact, it's exactly the opposite. The Company's WMRD does not discourage conservation for the same reasons I mentioned above as to why the WMRD sends the correct price signals to customers. Customers still have an incentive to conserve since for each therm they conserve, they avoid paying the Company's PGA rate in the second rate block where the conservation would likely occur.

Q. Shouldn't the customer also realize some distribution savings by conserving gas?

A. No. Unlike the variable cost of gas, when a customer conserves a therm of gas there is no corresponding reduction in distribution costs since they are relatively fixed. Conservation is commendable and should be encouraged where there are avoided costs like the cost of the natural gas resource itself. What the customer pays for the natural gas commodity itself is dependent on whether the natural gas stays in the ground or is consumed. That is not the case, however, with distribution costs. For a residential customer the same service pipe is put in the ground and the same meter installed regardless of whether the customer has an efficient gas furnace or not or decides to keep the house at 68 degrees or 60 degrees. Likewise, the same billing system and customer call center is in place regardless of whether the customer conserves or not. Those who suggest that distribution cost savings should also accompany a customer's conservation efforts ignore the economic realities of the Company's cost structure. The Company's

WMRD should be continued because it is compatible with conserving resources and reducing costs where there is a corresponding cost reduction to the Company, namely, when the gas commodity itself is not purchased by the Company.

Q. Some rate designs negatively impact the LDC as customers conserve gas. Is this a problem with the Company's WMRD?

A. No. Another advantage of the Company's WMRD is that it substantially lessens the financial burden that would otherwise be experienced by Laclede as a result of its customers' conservation efforts. The WMRD is the type of rate design that has been recently endorsed by the National Association of Regulatory Utility Commissioners, the National Resources Defense Council and others. For the reasons I just discussed, with the Company's WMRD the Company can encourage its customers to conserve without suffering financially as it would have under the Company's former rate design.

Q. Does the Company still have some weather risk under its WMRD?

A. Yes. As I stated at the outset, at a minimum the Company is at risk for weather variations from normal in the shoulder months when weather can have an impact on block 1 usage.

Q. Don't other LDCs have reduced weather risk?

A. Yes, they do and for that reason, even though the Company acknowledges that the WMRD has reduced the Company's risk, the effect this should have on the Return On Common Equity ("ROCE") recommended for the Company could be minimal to the extent that the Company's peer group for determination of ROCE already reflects reduced weather risk. In addition, it can be argued that because of the

increased impact of weather in the shoulder months, even though Laclede has made great strides in reducing its weather risk, it still remains riskier from the standpoint of weather in relation to an LDC that has one of the conventional weather adjustment clauses I described earlier.

Q. Does the Company's WMRD push weather risk off on customers?

A. No. Instead, weather risk to both the Company and the customers has been reduced. Just as under the former rate design, colder than normal years benefited the Company and hurt customers, and warmer than normal years benefited the customers and hurt the Company, the Company's WMRD also has a symmetrical impact. Under the Company's WMRD, the impact on both the Company and the customers has been reduced.

Q. Does the WMRD essentially produce a second customer charge?

A. No. Since the distribution charges borne by a customer under WMRD are dependent on each individual customer's block 1 usage, it is only similar to a customer charge to the extent that each customer's block 1 consumption is identical. Nevertheless, I would agree that the WMRD correctly shifts distribution cost recovery into a charge that stabilizes the Company's revenue stream. The reality is that the difference in cost to provide distribution service to a low use customer as opposed to a high use customer is negligible since, as I have already discussed, the vast majority of distribution costs are fixed.

Q. Are there problems with how customers' bills are affected by WMRD?

A. No. As I stated earlier in my testimony customers bills can ultimately increase or decrease as a result of WMRD but the impacts are relatively small.

Q. Should the Company's ACA factors be revised in conjunction with continuation of WMRD?

A. I have attached Schedule MTC-2 which was required as part of the settlement of the Company's last rate case so that ACA and PGA impacts associated with the WMRD could be analyzed. Even though the data for 2002/2003 does not reflect a full winter season under the WMRD, my own analysis of data for both winter seasons since the Company's last case indicates that separate ACA factors may be justified for each general service rate schedule; however, the impact of making such a change appears to be relatively small and may not justify the increased complexity with which the Staff was concerned in Laclede's last rate case.

Q. In the previous rate case the Company created blocked PGA rates to ensure that the total rate billed to general service customers during the winter season would be no higher as a result of WMRD. Since all of the rate increase allocable to general service commodity charges during the winter was added to the first rate block, did the Company make a similar adjustment to PGA rates in its proposed tariff sheets?

A. Yes.

Q. Why is the Company revising its PGA descriptions on Sheet No. 29?

A. This revision is warranted to clarify that the Company's blocked PGA rates for General Service only apply during the wintertime and that during the summer season the Company's unblocked PGA rate for all general service customers is used.

PGA MODIFICATIONS

Q. What changes are you proposing in the Company's PGA clause in this proceeding?

A. The Company proposes, as an alternative to the filed tariff sheets in this proceeding, to include in its current recovery and reconciliation of gas costs both carrying costs related to the Company's investment in gas inventories and the gas cost portion of the Company's bad debts. I have prepared specimen tariff sheets for the Commission's consideration of both of these proposals. Such sheets are attached as Schedule MTC-3 to my testimony.

Q. How is this a change from the existing ratemaking treatment of such costs?

A. These costs have traditionally been recovered through the non-gas rates established in the Company's general rate case proceedings. In this proceeding, however, the Company proposes to recover such costs from its customers through the Company's PGA clause since these costs are directly attributable to the Company's procurement of the gas supplies that are already recovered through the PGA. Due to the volatility of the prices applicable to these supplies, it is unlikely that any price estimate established in a rate case would appropriately reflect the costs that the Company ultimately incurs in both of these areas. The inclusion of these costs in the Company's PGA clause would ensure that the amount of such costs recovered from customers corresponds to the Company's actual costs, no more and no less.

Q. What do you mean by gas inventory carrying costs?

A. Such costs reflect the Company's cost to finance its investment in the various types of gas inventories necessary to meet its customers' wintertime gas requirements. As set forth on Sheet No. 28-h, such inventories consist of Non-Current and Current Gas Stored Underground (Account Nos. 117 and 164) for both Company-owned storage and leased storage and L.P. Gas Stock (Account No. 154). These inventories have traditionally been included in the Company's rate base.

Q. Please explain how the PGA treatment of gas inventory carrying costs and bad debts gas costs would work.

A. A Gas Inventory Carrying Cost Recovery ("GICCR") component would be added to the calculation of the Company's Current PGA based on an estimate of the carrying costs on the average gas inventory balances established in the resolution of the Company's most recent general rate case. Similarly, an Uncollected Gas Cost Recovery ("UGCR") component of the Company's CPGA factors would be added to the calculation of the Company's Current PGA based on an estimate of the gas cost portion of bad debts established in the resolution of the Company's most recent general rate case.

Q. Earlier you testified that it is unlikely these costs can be accurately projected in a general rate case. How would the Company's PGA treatment of such costs represent an improvement?

A. As with the recovery of the Company's purchased gas costs, the Company would initially charge its customers for the recovery of these costs based on a projection of such costs that would be included in the Company's Current PGA factors. Any

differences between such projection and the Company's actual accrual of these costs would be adjusted pursuant to the Actual Cost Adjustment accounting described in Sheet No. 28-h.

Q. Are you aware of any other LDCs that recover these types of costs through their PGA rates?

A. Yes. I'm aware of at least one LDC, Questar, which appears to recover gas inventory carrying costs in its PGA rates in both Utah and Wyoming. I'm also aware of several LDCs that recover the gas cost portion of bad debts through their PGA rate and several more that are allowed to recover the entirety of their bad debt write-offs, including both gas and distribution costs.

Q. What impact would these PGA modifications have on the Company's rates?

A. Such modifications would have the effect of reducing the Company's non-gas rates in the filed tariff sheets and increasing the Company's PGA rates.

RATE ADJUSTMENTS UPON RESOLUTION OF CASE

Q. What rate adjustments should be made upon resolution of the case?

A. Two adjustments are in order. First, the Company's PGA factors should be adjusted to reflect the normalized throughput in this proceeding. Second, the Company's non-gas rates should be adjusted for any potential rate switching.

Q. Please explain the PGA adjustment.

A. The Company's Current PGA rates include certain costs recovery components that are derived by dividing the Company's fixed gas costs by normalized volumes. Presently, such cost recovery components are based on the settlement volumes determined in Case No. GR-96-193. In order to avoid the temporary

over-or under-recovery of fixed gas costs that would result when PGA rates are applied to volumes different from those volumes used to establish PGA rates, such cost recovery components should be adjusted to reflect the normalized volumes established in the Company's latest rate case.

Q. Why is such over-or under-recovery only temporary?

A. Absent the change in PGA rate, the over-or under-recovery is corrected through the Deferred Purchased Gas Costs Account provisions of the Company's PGA clause.

Q. What will happen when PGA rates are adjusted?

A. By adjusting the PGA rates whenever new normalized volumes are established in a general rate case proceeding, the Company can minimize the potential over-or under- recovery of gas costs that would otherwise occur in the short term due to the change in the Company's throughput.

Q. Please explain the need for a rate switching adjustment.

A. Before the Company's rates in this proceeding are finally established, it is important that the effect of potential rate switching be reflected in the Company's rates.

Q. What do you mean by rate switching?

A. Some customers qualify for gas service under more than one rate schedule, most notably commercial and industrial customers who are large enough to qualify for the Company's Large Volume Service rate but who otherwise would be billed under one of the Commercial & Industrial General Service rate schedules. Presumably such customers choose to be billed under the rate schedule that results

in the lowest cost consistent with the type of service the customer desires. However, it is possible that, after making the rate adjustments ordered or agreed to in this proceeding, some customers would receive a lower overall gas bill if they switch to a different rate schedule.

Q. Why do the Company's rates need to be adjusted to reflect rate switching?

A. To keep the Company whole, the Company's rates must be adjusted to offset the revenue anticipated to be lost from customers who switch rates due to rate changes resulting from this proceeding.

GAS SUPPLY INCENTIVE PROGRAM

Q. Please describe the tariff sheets that implement the Company's proposed gas cost incentive program that is discussed by Company witness K.J. Neises.

A. The proposed tariff sheets are patterned after incentive tariff sheets the Commission has previously approved that include similar features. In addition to the measurement of savings under the various incentive components, the PGA accounting aspects of the Company's program are very similar or identical to previously effective or currently effective programs.

Q. What are the components of the Company's incentive plan that are included in these sheets?

A. The plan consists of the following components:

A Physical Gas Procurement component that is comprised of two benchmarks: a gas supply demand benchmark and a commodity cost benchmark. The Company is permitted to share in any savings it can achieve by purchasing gas under this benchmark.

A second component is the Financial Hedging component in which the Company is entitled to a share of cost reductions it realizes in the course of purchasing financial instruments to hedge the physical cost of gas.

And a third component is the Transportation Discounts component in which the Company is entitled to a share of any discounts it can negotiate with its transportation providers.

MISCELLANEOUS TARIFF CHANGES

Q. Is the Company revising any other tariff sheets in this filing?

A. Yes. Sheet No. 36 is being revised to clarify the extent of the Company's obligation to notify its transportation customers in certain matters. On Sheet No. 7, in addition to adjusting Interruptible Service rates for the general rate increase, the Company has increased the charge for gas used during periods of interruption to $2.00 per therm to create a stronger deterrent to using gas during such periods and to align the penalties for unauthorized use of gas in both the Interruptible Service and LVTSS rate schedules. Sheet Nos. R-5, R-5-a, R-5-b and R-12-a are being revised to address certain deposit and discontinuance issues that are more specifically described in the testimony of Mr. J.A. Fallert. Sheet No. 31 is being revised to increase the Company's Returned Payment Charge in order to further discourage customers from making payment from bank accounts with insufficient funds. Furthermore, such increase would make the Company's charge comparable to other utilities' charges.

LOW-INCOME ENERGY ASSISTANCE

Q. Please explain in greater detail the Low-Income Energy Assistance Program to which Mr. Neises referred in his direct testimony.

A. As Mr. Neises indicated, in the event the Commission approves the Company's incentive proposals, the Company is willing to contribute $2 million to fund a low-income energy assistance program. The primary focus of the program would be to assist customers in reducing their arrearages so that they have a better opportunity to maintain utility service on a going-forward basis. To that end, eligible customers would be permitted to receive bill credits of up to $375 per quarter in exchange for taking certain measures that are designed to benefit them as well as all other customers. The program would be administered in cooperation with social service agencies in the Company's service territory who customarily distribute sources of energy assistance.

Q. What would the program require from eligible customers in order to receive such credits?

A. The customers must meet several conditions to benefit from the program. Specifically, the customer must agree to make timely bill payments, apply for other forms of energy assistance, and agree to implement, where feasible, cost-free energy conservation measures designed to reduce energy consumption.

Q. Who would be eligible to participate in the program?

A. Initially, residential customers residing in households with income less than or equal to 175% of the federal poverty level.

Q. Would the Company agree to use some portion of the program funds for additional weatherization of homes?

A. Yes. Although the Company believes the primary use of the funds should be for energy assistance, it may also be appropriate to channel some funds from this program to the Company's existing low-income weatherization program or other conservation-oriented programs. On that score, assuming the Company's incentive programs are approved by the Commission, the Company is also willing to consider recommendations for this program from the task force established by the Commission to address long term energy and affordability issues.

Q. The implementation of a new program, such as the one you are proposing, should be evaluated to ensure that these funds are spent wisely and achieve the greatest possible benefit to low-income customers. Is the Company agreeable to providing program data on a periodic basis to the Commission and other interested parties?

A. Yes. As an example of the type of information the Company is willing to provide, I refer the Commission to the sample tariff sheets the Company submitted in Case GT-2003-0117. The detailed reporting described in those sheets was proposed by the Office of the Public Counsel in that proceeding.

CERTAIN COST OF SERVICE AND OTHER DATA

Q. Is the Company obligated to provide certain class cost of service and other information to the parties in the Company's last rate case?

A. Yes. As contemplated by the various stipulation and agreements in the Company's last case, in early to mid 2003 the Company had several discussions with the parties in that case about the type of class cost of service and other

information the Company was committed to supplying to such parties before its next case. To fulfill such obligation, I have distributed certain pieces of this information electronically on the same day the Company is making its tariff filing in this case.

Q. Please briefly describe the information you are providing.

A. Such information consists of the following items:

- Random sample of typical main, meter, regulator and service installation for each class of customers
- Embedded and trended cost data as of 9/30/04
- Service, meter and usage data for all commercial and industrial customers
- Meter reading, customer billing and collection studies by customer classes

RESEARCH AND DEVELOPMENT FUNDING

Q. Do the Company's current or proposed rates include any funding for research and development ("R&D") efforts by the Gas Technology Institute "("GTI")?

A. No. Up until last summer, the Company had paid a surcharge in the rates of its interstate pipeline providers to fund the R&D efforts of GTI's predecessor, the Gas Research Institute. Such surcharge had been authorized for years by the Federal Energy Regulatory Commission ("FERC") for inclusion in pipeline rates. However, in the late 1990s the FERC approved a gradual phasing out of the mandatory surcharge. 2004 was the last year of the phase out plan. As a result,

GTI can no longer rely on the level of funding that was previously made possible by the FERC surcharge.

Q. Even though Laclede is no longer required to fund R&D in this manner, would the Company support other means to fund GTI's programs?

A. Yes. The Company believes R&D is important to the health of the gas industry. Although the Company's filing in this case does not address future funding of GTI, the Company would be prepared to address the need for ratepayer-sourced funding, preferably in a generic proceeding before this Commission. In addition, it is the Company's position at this time that any new funding of GTI should be effectuated through the Company's PGA clause where it has historically and appropriately resided.

Q. Does this conclude your testimony?

A. Yes, it does.

LACLEDE GAS COMPANY
ALLOCATION OF PROPOSED RATE INCREASE

Rate Schedule	% Change In Total Revenues
Residential General	4.4%
Commercial and Industrial General Class 1	3.9%
Commercial and Industrial General Class 2	2.7%
Commercial and Industrial General Class 3	2.8%
Residential Seasonal Air Conditioning	3.9%
Commercial and Industrial Seasonal Service	2.8%
Large Volume	2.0%
Interruptible	2.2%
General LP	2.9%
Vehicular Fuel	0.8%
Unmetered Gas Lights	3.7%
Large Volume Sales and Transportation	10.5%
Total	4.1%

Schedule MTC-1

LACLEDE GAS COMPANY
FIRM THERM SALES

	11/03	12/03	1/04	2/04	3/04	4/04
Residential Sales						
General - Block 1	189,167	243,832	259,880	248,928	218,982	184,046
General - Block 2	43,904	187,373	256,640	240,169	133,555	24,866
Heating - Block 1	29,880,735	36,811,764	37,839,532	37,962,107	35,971,964	30,340,955
Heating - Block 2	10,592,314	45,878,670	66,526,953	72,809,348	26,259,163	7,701,807
Comm/Ind						
Gen/Htg 1 - Block 1	1,458,789	2,358,320	2,632,381	2,662,641	2,191,434	1,563,210
Gen/Htg 1 - Block 2	863,553	3,909,057	6,563,289	7,346,611	3,024,229	1,243,185
Gen/Htg 2 - Block 1	5,542,983	8,154,826	8,675,867	8,812,186	7,633,645	5,857,339
Gen/Htg 2 - Block 2	2,023,101	8,479,555	13,040,872	15,175,200	6,121,171	2,541,168
Gen/Htg 3 - Block 1	3,055,114	3,765,715	3,917,527	4,096,963	3,615,571	3,201,001
Gen/Htg 3 - Block 2	1,171,012	3,984,124	5,866,096	6,580,383	2,676,719	1,184,576
Large Vol.	1,409,253	2,258,255	2,612,808	2,847,026	2,017,636	1,554,357
Other Firm	38,778	50,848	52,182	65,064	52,920	50,364
Total Firm	56,268,703	116,082,338	148,244,027	158,846,624	89,916,990	55,446,873

LACLEDE GAS COMPANY
FIRM THERM SALES

	11/02	12/02	1/03	2/03	3/03	4/03
Residential Sales						
General - Block 1	224,372	256,974	269,386	259,113	238,211	190,737
General - Block 2	48,405	229,823	262,670	289,942	132,412	26,743
Heating - Block 1	34,309,767	37,027,808	38,014,475	38,089,021	36,570,720	30,485,069
Heating - Block 2	22,153,280	53,894,003	72,997,943	73,924,573	38,272,444	6,682,624
Comm/Ind						
Gen/Htg 1 - Block 1	2,065,121	2,397,315	2,601,494	2,674,403	2,334,745	1,537,766
Gen/Htg 1 - Block 2	3,318,207	3,872,114	6,007,552	7,624,517	4,124,121	299,260
Gen/Htg 2 - Block 1	5,464,886	8,588,751	9,154,444	8,709,866	8,113,546	5,877,897
Gen/Htg 2 - Block 2	3,941,076	10,133,092	14,251,892	15,711,646	9,500,685	1,725,647
Gen/Htg 3 - Block 1	3,062,677	4,137,215	4,309,138	4,051,971	3,922,410	3,308,645
Gen/Htg 3 - Block 2	2,261,758	4,991,082	6,568,033	6,909,602	4,381,766	1,481,397
Large Vol.	1,952,054	2,494,747	2,674,958	2,836,317	2,311,125	1,386,536
Other Firm	34,344	32,805	57,580	44,347	39,935	37,493
Total Firm	78,835,946	128,055,726	157,169,564	161,125,316	109,942,120	53,039,813

SPECIMEN TARIFF SHEET – FOR ILLUSTRATIVE PURPOSES ONLY

P.S.C. MO. No. 5 Consolidated, Ninth Revised Sheet No. 15

CANCELLING P.S.C. MO. No. 5 Consolidated, Eighth Revised Sheet No. 15

Laclede Gas Company — Name of Issuing Corporation or Municipality

For Refer to Sheet No. 1 — Community, Town or City

SCHEDULE OF RATES

PURCHASED GAS ADJUSTMENT CLAUSE

A. Current Purchased Gas Adjustments

In the event of increases or decreases in the cost of purchased gas, charges for gas service contained in the Company's then effective retail rate schedules on file with the Missouri Public Service Commission (Commission), with the exception of the Large Volume Transportation and Sales Service ("LVTSS") and Vehicular Fuel ("VF") rate schedules, shall be increased or decreased at the times provided in Section E by a Current Purchased Gas Adjustment ("CPGA"). The CPGA for sales made pursuant to the LVTSS and VF rate schedules shall be determined and implemented on a monthly basis, as described in paragraph 5 below, and shall be calculated in conformance with the CPGA for other firm sales rate schedules, except where noted. The cost of purchased gas shall include but not be limited to all charges incurred for gas supply, pipeline transmission and gathering and contract storage.

1. a. The CPGA factor for firm sales shall be calculated by summing the gas cost components per therm as determined in accordance with paragraphs 2.a., b., c., d., e., f. and g. respectively, of Section A of this clause.

   b. The CPGA factor for the seasonal and interruptible sales classifications shall be calculated by summing the gas cost components per therm as determined in accordance with paragraphs 2.c., d., e., f. and g. respectively, of Section A of this clause.

2. The following unit gas cost components, rounded to the nearest .001¢ per therm, are recoverable under the PGA of either firm or interruptible sales customers, where applicable, as described in Paragraph A.1.above.

DATE OF ISSUE February 18, 2005 (Month Day Year) DATE EFFECTIVE March 21, 2005 (Month Day Year)

ISSUED BY K.J. Neises, (Name of Officer) Executive Vice President, (Title) 720 Olive St., St. Louis, MO 63101 (Address)

SCHEDULE OF RATES

A. Current Purchased Gas Adjustments (Continued)

Commodity-related charges shall include but not be limited to producer or gas supply commodity charges and pipeline transmission and gathering commodity charges. For any PGA rate filed to become effective during the November through April winter period, the current average commodity-related cost per therm must reflect -- in addition to the costs of current purchased gas supplies -- costs or cost reductions at the time of such filing, that are expected to be realized for the entire winter period, related to storage withdrawals, gas purchases under fixed-price contracts and the Company's use of financial instruments, except for call options for which only cost reductions expected to be realized during the months covered by the Company's PGA filing shall be reflected.

The Commodity-Related Charge cost component per therm for sales made to LVTSS and VF customers shall be determined by dividing total current annualized commodity-related costs by the total sales volumes specified in Section F. Total current annualized commodity-related costs shall be equal to the product of the current average commodity-related cost per therm applicable to the Company's purchases during the period covered by the new CPGA and the annual purchase volumes specified in Section F. The current average commodity-related cost per therm shall be equal to the latest effective commodity-related charges divided by the total purchase volumes for such period.

d. Take-or-Pay Charges. The Take-or-Pay cost component per therm shall be determined by dividing the current annualized take-or-pay related cost of purchased gas by the total sales and transportation volumes specified in Section F.

e. Other Non-Commodity-Related Gas Costs. With the exception of FERC Order No. 636 transition costs identified in an interstate pipeline company's rate schedules, the Other Non-Commodity-Related Gas Cost component per therm shall be determined by dividing all non-commodity-related gas costs subject to regulation by the FERC or any successor agency, by the total sales and transportation volumes specified in Section F. The Other Non-Commodity-Related Gas Cost component per therm applicable to the aforementioned transition costs will be determined by dividing such costs by the total sales volumes specified in Section F.

f. Gas Inventory Carrying Cost Recovery ("GICCR"). The GICCR component of the Company's CPGA factors shall be determined by dividing the estimated carrying costs on the average gas inventory balances established in the resolution of the Company's most recent general rate case by the total sales volumes specified in Section F.

SCHEDULE OF RATES

A. Current Purchased Gas Adjustments (Continued)

g. Uncollected Gas Cost Recovery ("UGCR"). The UGCR component of the Company's CPGA factors shall be determined by dividing the estimated gas cost portion of the bad debts provision established in the resolution of the Company's most recent general rate case by the total sales volumes specified in Section F.

3. The factors determined in Paragraphs 2.b., 2.d., 2.e., 2.f. and 2.g. shall be applicable to transportation throughput pursuant to Sheet No. 34 of the Company's Large Volume Transportation and Sales Service per therm, respectively. For informational purposes, such charges shall also be set forth at the bottom of Sheet No. 29.

4. The CPGA for firm sales, with the exception of LVTSS and VF sales, and the CPGA for seasonal and interruptible sales shall be set forth on Tariff Sheet No. 29 to be filed with the Commission and shall remain in effect until the next CPGA becomes effective hereunder, or until retail rates (or the fixed test period purchase and sales volumes) are otherwise changed by order of the Commission. Each CPGA made effective hereunder shall cancel and supersede the previously effective CPGA and shall be the CPGA to be effective thenceforth.

5. Each month, upon the availability of the natural gas market indices used in the determination of the Company's gas supply costs, the Company shall notify all of its LVTSS and VF customers by e-mail or facsimile of the CPGA which shall be applied to sales to such customers in such month. Such CPGA shall be computed in accordance with paragraphs 1 and 2 above, and shall become effective the next gas day after the aforementioned notification. Each month the Company shall submit to the Staff of the Commission a copy of the workpapers containing the computation of the CPGA.

6. The amount of each customer's bill shall include a CPGA charge which shall on a net basis be the product of (a) the CPGA per therm applicable to the sales classification as set forth in Tariff Sheet No. 29 for non customers other than LVTSS andVF, or the CPGA per therm described in paragraph 5 above for LVTSS and VF customers, and (b) the total therms used in each billing period.

SCHEDULE OF RATES

H. Gas Inventory Carrying Cost Recovery Account

The Company shall maintain a Gas Inventory Carrying Cost Recovery ("GICCR") Account which shall accumulate entries related to the Company's recovery of carrying costs, as defined below, associated with its investment in various natural gas and propane inventories. The inventories covered by this section include both Non-Current and Current Gas Stored Underground (Account Nos. 117 and 164) for both Company-owned storage and leased storage and L.P. Gas Stock (Account No. 154). Each month the Company shall debit the GICCR Account for the recovery of carrying costs by multiplying the end-of-month balances in the aforementioned inventory accounts by a rate equal to the prime rate published in **The Wall Street Journal** on the first business day of such month minus two percentage points. Each month the Company shall also credit the GICCR Account for the GICCR amounts billed to customers by multiplying the GICCR component of the Company's CPGA factors, as set forth in Section A.2.f. of this clause, by the Company's sales volumes. Each year the debit or credit balance in the GICCR Account at the end of September shall be divided by the Company's total estimated sales volumes during the subsequent twelve months ended October period to produce the GICCR component of the Company's ACA factors that shall become effective with the PGA factors the Company implements during November and that shall remain in effect until the effective date of the Company's new ACA factors in the subsequent November. Such GICCR ACA component shall be applied to all volumes billed to each sales customer and all actual GICCR ACA revenue recovered therefrom shall be debited or credited to the GICCR ACA Account as appropriate.

SPECIMEN TARIFF SHEET – FOR ILLUSTRATIVE PURPOSES ONLY

P.S.C. MO. No. 5 Consolidated, First Revised Sheet No. 28-i

CANCELLING P.S.C. MO. No. 5 Consolidated, Original Sheet No. 28-i

Laclede Gas Company — Name of Issuing Corporation or Municipality

For Refer to Sheet No. 1 — Community, Town or City

SCHEDULE OF RATES

I. Uncollected Gas Cost Recovery Account

The Company shall maintain a Uncollected Gas Cost Recovery ("UGCR") Account which shall accumulate entries related to the Company's recovery of the gas cost portion of the Company's bad debt write-offs. Each month the Company shall debit the UGCR Account for the gas cost portion of bad debt write-offs. Each month the Company shall also credit the UGCR Account for the UGCR amounts billed to customers by multiplying the UGCR component of the Company's CPGA factors, as set forth in Section A.2.g. of this clause, by the Company's sales volumes. Each year the debit or credit balance in the UGCR Account at the end of September shall be divided by the Company's total estimated volumes during the subsequent twelve months ended October period to produce the UGCR component of the Company's ACA factors that shall become effective with the PGA factors the Company implements during November and that shall remain in effect until the effective date of the Company's new ACA factors in the subsequent November. Such UGCR ACA component shall be applied to all volumes billed to each sales customer and all actual UGCR ACA revenue recovered therefrom shall be debited or credited to the UGCR ACA Account as appropriate.

DATE OF ISSUE February 18, 2005 (Month Day Year) DATE EFFECTIVE March 21, 2005 (Month Day Year)

ISSUED BY K.J. Neises, (Name of Officer) Executive Vice President, (Title) 720 Olive St., St. Louis, MO 63101 (Address)

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's Tariff to Revise Natural Gas Rate Schedules.	)))	Case No. GR-2005-

AFFIDAVIT

STATE OF MISSOURI)
) SS.
CITY OF ST. LOUIS)

Michael T. Cline, of lawful age, being first duly sworn, deposes and states:

1. My name is Michael T. Cline. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Director - Tariff and Rate Administration of Laclede Gas Company.

2. Attached hereto and made a part hereof for all purposes is my direct testimony, on behalf of Laclede Gas Company.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Michael T. Cline

Subscribed and sworn to before me this 17th day of February, 2005.

JOYCE L. JANSEN
Notary Public — Notary Seal
STATE OF MISSOURI
ST. CHARLES COUNTY
My Commission Expires: July 2, 2005