Exhibit No.:	
Issue:	Rate Base; Accounting Schedules; Weather Normalization
Witness:	Patricia A. Krieger
Type of Exhibit:	Direct Testimony
Sponsoring Party:	Laclede Gas Company
Case No.:	GR-2005-_____
Date Testimony Prepared:	February 18, 2005

LACLEDE GAS COMPANY

GR-2005-_____

DIRECT TESTIMONY

OF

PATRICIA A. KRIEGER

FEBRUARY 2005

Direct Testimony of Patricia A. Krieger

Table of Contents

DIRECT TESTIMONY OF PATRICIA A. KRIEGER

General Information/Qualifications

Q. Please state your name and business address.

A. My name is Patricia A. Krieger, and my business address is 720 Olive St., St. Louis, Missouri 63101.

Q. What is your present position?

A. I am Manager of Accounting for Laclede Gas Company ("Laclede" or "Company").

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

A. I was promoted to my present position in January, 1997. I am responsible for managing three departments: Financial Reporting, Gas Accounting and Asset Management. These departments maintain the books of the Company in accordance with generally accepted accounting principles and the rules and regulations of this Commission.

Financial Reporting duties include preparing reports to the Securities and Exchange Commission, to stockholders and to this Commission. Gas Accounting is responsible for accounting activities relating to the Company's natural gas costs and customer revenues, as well as analyses of the effects of weather on customer sales. Asset Management maintains the continuing property records of the Company and carries out related duties.

Q. What is your educational background?

A. I graduated from Saint Louis University in 1976 with the degree of Bachelor of Science in Business Administration, majoring in accounting.

Q. Will you briefly describe your experience with the Company prior to becoming Manager of Accounting?

A. I joined Laclede in November, 1976 as an Accountant in the Corporate Accounting Department. I was promoted to Senior Auditor in June, 1979 and transferred to the Internal Audit Department. In June, 1983, I was transferred to the Budget Department, where I served as Senior Budget Analyst and Assistant Manager until being promoted to Manager of the Budget Department in April, 1988. I held this position until being promoted to Manager of Accounting.

Q. Have you previously filed testimony before this Commission?

A. Yes, I have. I have previously filed testimony in Cases Nos. GR-2002-356, GR-2001-629, GM-2001-342, GR-99-315, GR-98-374, GR-96-193, and GR-94-220.

Q. What is the purpose of your testimony?

A. I am sponsoring the Company's rate base on an original cost basis and certain components of working capital for inclusion in the Company's rate base. I am also sponsoring income statement adjustments in the areas of revenue and gas cost, depreciation and amortization, costs of removal, taxes other than income and appliance service work.

Q. Please list the schedules you are sponsoring.

A. The following items were prepared by me or under my supervision: Schedule 1. This schedule summarizes the components of the Company's original cost rate

base. While I am not the main sponsor for Schedules 4 and 5, I am sponsoring certain adjustments to those schedules, as discussed in this direct testimony.

Rate Base

Q. What items are you sponsoring for inclusion in the Company's original cost rate base (Schedule 1)?

A. Gross Plant amounts for Laclede have been estimated to March 31, 2005. Deducted therefrom is the estimated balance of accumulated provision for depreciation, depletion and amortization at the same date. I also deducted the September 30, 2004 balance of customer advances for construction. I have also included balances for working capital, which I am sponsoring as additions to rate base.

Q. What is "working capital?"

A. Working capital, as I use the term here, is the average amount of investment in the utility business provided by investors, in excess of that which is included in net utility plant, offset by appropriate deferred income taxes. Working capital includes the Company's investment in its various inventories, prepayments and deposits, and materials and supplies.

Q. Please explain the working capital items you are sponsoring on Schedule 1.

A. Schedule 1 includes the average balance for Special Deposits over the test year ending September 30, 2004.

Also listed on Schedule 1 are the average balances for the Company's Propane Gas Inventory, the current portion of Natural Gas Stored Underground in the Laclede storage field and Natural Gas Stored Underground in the storage

fields of others (primarily Mississippi River Transmission Corporation), over the test year ended September 30, 2004.

As discussed more fully in the testimony of Company witness M. T. Cline, the Company is proposing to reflect the financing costs related to gas and propane inventories in the Purchased Gas Adjustment Clause. Should the Commission grant this tariff change, inventory balances would no longer need to be included in rate base. In addition, the non-current portion of natural gas stored underground in the Laclede storage field would be excluded from rate base.

Schedule 1 also includes the average balances in Prepayments and General Materials and Supplies and Related Stores Expenses over the test period ending September 30, 2004.

Q. What items of rate base do other Company witnesses address in this case?

A. The Gas Safety Deferrals, Prepaid Pension Asset, and Deferred Income Taxes are described in the testimony of Company witness J. A. Fallert. The cash working capital requirement of the Company is described in the testimony of Company witness G. W. Buck. The impact on rate base of the Insulation Financing Program, the EnergyWise Program, and Customer Deposits is also described in the testimony of Company witness G. W. Buck.

Adjustments to Utility Operating Income

Q. Please explain the adjustments you are sponsoring to Laclede's operating income.

A. I am sponsoring adjustments to revenues and gas costs to reflect the impact of changes in large users, increases or decreases in residential and small commercial customers, and the elimination of unbilled revenue accruals and amounts billed

associated with the Infrastructure System Replacement Surcharge on the Company's books. In addition, I am sponsoring adjustments concerning the effect of weather on the Company's revenues. I am also sponsoring adjustments to depreciation and amortization expense, cost of removal expense, taxes other than income expense, and to the revenues and expenses related to appliance service work, off-system sales and releases of pipeline capacity. These adjustments appear on Schedule 5.

Large User Load Changes

Q. Please discuss the adjustments related to large users.

A. Adjustments 1.c., 1.d., and 1.e. reflect known and measurable changes through March 31, 2005 in the usage levels and/or rate schedules for several of our large customers. These are customers whose circumstances have changed or are expected to change due to changes in volumes, newly contracted-for demand levels, and/or changes in the rates under which they purchase gas. These adjustments are necessary to include the most recent known sales information for these customers in normalized revenues. The three categories are:

I. Firm Sales Service

Adjustment 1.c. reflects the rate switching and/or load changes of seventeen specific customers who were or are served under this rate classification.

II. Firm Transportation and Sales Service

Adjustment 1.d. reflects the rate switching and/or load changes of seven specific customers who were or are served under this rate classification.

III. Basic Transportation and Sales Service

Adjustment 1.e. reflects the rate switching and/or load changes of seven specific customers who were or are served under this rate classification.

Q. What other adjustments are you sponsoring related to large users?

A. Adjustment 1.f. reflects a normalized level of unauthorized use charges for the Company's basic transportation customers. During the test year ended September 30, 2004, this group of customers was billed a lower than normal level of unauthorized use charges due to fewer days of limitation during the test year. Adjustment 1.f. increases revenues related to unauthorized use charges to a normal level based on the average number of days of limitation per year since the year that the unauthorized charge commenced.

Q. Are you sponsoring any other adjustments related to large users?

A. Yes. Adjustment 1.g. reflects a normalized level of demand charges to be billed to the Company's large volume and transportation customers. During the test year ended September 30, 2004, this group of customers were billed a level of demand charges slightly below the level that would be expected to be billed during subsequent periods. Adjustment 1.g. adjusts revenues related to billing demand charges for large volume customers to an annualized January 2005 billing level. It also adjusts revenues related to billing demand charges for transportation customers to current contract levels adjusted to reflect typical increases in billing demands associated with periods of limitation.

Residential and Small Commercial Customer Changes

Q. Please explain the revenue adjustment made to reflect changes in residential and small commercial customers.

A. During the test year, the Company experienced modest growth in both its residential and small commercial customers billed at the General Service rate in its St. Charles, Missouri Natural and Midwest operating divisions. The Laclede operating division experienced customer losses. Adjustment 1.h. adjusts revenues to an annualized level that includes these changes in customer levels as if those levels had been experienced for the full year. Furthermore, the adjustment adds revenues related to projected customer growth in the St. Charles, Missouri Natural and Midwest operating divisions of the Company through March 31, 2005.

Q. What is the basis for this adjustment?

A. This overall residential and small commercial customer adjustment reflects annualized customer changes based on the period ended January 2005, and the same rate of growth through March 31, 2005 in the St. Charles, Missouri Natural and Midwest operating divisions.

Weather Normalization

Q. Please discuss the adjustments you are sponsoring concerning the effect of weather on the Company's revenues and expenses.

A. Actual weather experienced in the heating season affects the Company's sales levels, its revenues and its gas cost expenses. If weather is colder than was anticipated, each of these items (i.e., sales, revenues and gas cost expenses) will

increase in amount. Conversely, if weather is warmer than was anticipated, the amount of these items will decrease.

Q. Is the effect of weather significant on the Company's sales levels, revenues, and gas cost expense?

A. Yes. The weather sensitivity of a local gas distributor's sales levels is widely recognized in the industry and in financial and regulatory circles. Space heating constitutes by far the largest end-use of gas in Laclede's system. During the test year, spaceheating revenues accounted for more than 90% of total revenues billed to on-system customers.

Approximately 98% of Laclede's residential customers use gas for their primary heat source. A number of the remaining residential customers use gas for a secondary heat source. In our service area, the vast majority of an average heating customer's usage is for space heating, followed by water heating usage. Other end uses, such as cooking, clothes drying, and lighting constitute a small fraction of the total. Because Laclede is particularly dependent on space heating for its revenues, weather is a primary variable in determining Laclede's revenues.

Q. How does the ratemaking process address the impact of weather fluctuations on a gas utility's operations?

A. Space heating sales levels are primarily determined by heating season temperatures in the gas utility's service area. In setting rates, this Commission has traditionally approved an adjustment to Laclede's test year data to account for the effects of weather through use of a measure known as heating degree days (also referred to as "degree day deficiencies" or simply "degree days"). This

adjustment has traditionally been calculated through a comparison of the actual number of degree days experienced in the test year in Laclede's service area with an historical measure of degree days considered to be normal in such area. The adjustment is designed to adjust test year operating results to levels which would have been experienced had the test year contained a normal number of heating degree days.

Q. Please define the term "heating degree day."

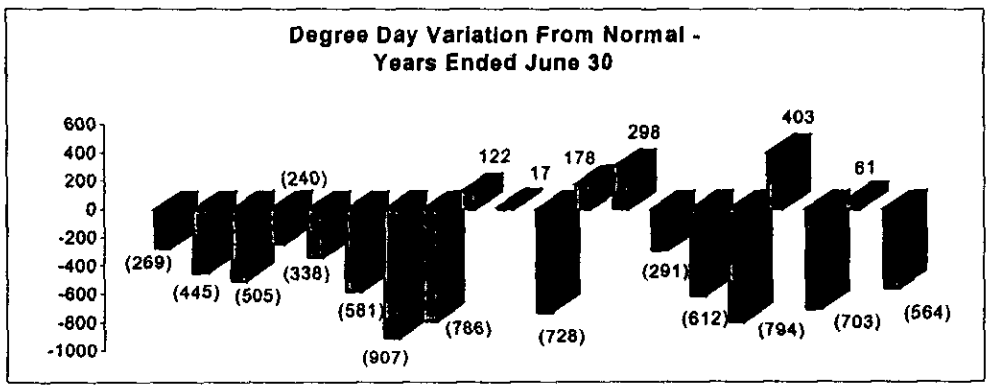
A. A heating degree day is a unit used to measure the requirement for space heating due to the coldness of weather. Specifically, each heating degree day represents each degree by which the average temperature for a day falls below 65° Fahrenheit based on daily high and low temperatures recorded and published by the National Oceanic and Atmospheric Administration (NOAA), an agency of the United States Government. Thus, an average daily temperature of 45° Fahrenheit would be equal to 20 degree days. Degree days can be calculated and accumulated for a number of days, such as a month or a heating season, to provide a measure of heat requirements.

Q. How are normal degree days determined?

A. Generally, normal degree days are determined by an analysis of historical data. In the past, the Company's rates have been based on various normals calculated by averaging actual degree days experienced over periods ranging from thirty years to longer-term averages which used all historical weather data available for this century. More recently, rates have been set based on 30 years of historical data or parameters agreed upon by the parties developed from 30-year data.

Q. What has recent experience shown the deviation to be between actual degree days and such 30-year normals?

A. Recent experience has shown that traditional 30-year normals are unreliable in approximating expected degree days, even over a span of a number of years. The following table shows the heating season degree days, as reported by NOAA, that were actually experienced during recent years compared with the NOAA 30-year normal degree days for St. Louis, Missouri.



Year	Actual Degree Days	Normal Degree Days		Degree Day Variation From Normal
1985	4,669	4,938	*	(269)
1986	4,493	4,938	*	(445)
1987	4,433	4,938	*	(505)
1988	4,698	4,938	*	(240)
1989	4,600	4,938	*	(338)
1990	4,357	4,938	*	(581)
1991	4,031	4,938	*	(907)
1992	4,152	4,938	*	(786)
1993	4,880	4,758	**	122
1994	4,775	4,758	**	17
1995	4,030	4,758	**	(728)
1996	4,936	4,758	**	178
1997	5,056	4,758	**	298
1998	4,467	4,758	**	(291)
1999	4,146	4,758	**	(612)
2000	3,964	4,758	**	(794)
2001	5,161	4,758	**	403
2002	4,054	4,757	***	(703)
2003	4,818	4,757	***	61
2004	4,193	4,757	***	(564)

* 30-year normal based on 1951-1980 period published by NOAA
** 30-year normal based on 1961-1990 period published by NOAA
*** 30-year normal based on 1971-2000 period published by NOAA

The predominantly warmer-than-normal weather experienced between 1985 and 2002 caused Laclede's sales levels to fall short of those levels predicated on long-term norms upon which rates were set, having a significant adverse effect on the Company's earnings and rate of return. Earnings were depressed by millions of dollars during those years, resulting in long-term earnings shortfalls from the levels justified and approved by the Commission in previous rate cases.

Q. What was the effect of weather variations in 2003 and 2004?

A. Actual degree days continued to vary from NOAA's published normals, particularly in 2004 when the weather was significantly warmer than normal. However, in Case No. GR-2002-356, the Commission approved a new rate design, effective November 9, 2002, that more equitably serves both the ratepayer and the shareholder, despite weather fluctuations that vary significantly from the traditional 30-year normals. Due to the implementation of the new rate design, the Company did not experience an earnings windfall in 2003 as a result of weather that was colder than normal. Nor did it experience as large of an adverse earnings effect that would have otherwise occurred due to the significantly warmer-than-normal weather in 2004. The weather mitigation rate design did not eliminate the impact of the significantly warmer weather in 2004, but lessened that impact to a more controlled level. The current rate design greatly improves and simplifies the ratemaking process with regard to weather normalization, and makes the lack of reliability, as well as timing and measurement issues, associated with traditional 30-year normals, tolerable.

Q. Please explain what you mean by timing and measurement issues associated with traditional 30-year normals.

A. NOAA publishes normals at the end of each decade based on three decades of data. For instance, the current normals, published after the end of calendar 2000, reflect the weather conditions experienced during the January 1971 through December 2000 period. NOAA does not update normals again until the end of the next decade; therefore, more recent weather experience is not reflected for many years thereafter. Also, during each decade, the type and location of the instruments used to measure temperature may change at the weather sites. Variations in temperature measurement may result from such changes. At the end of each decade, NOAA reviews the data for measurement biases and, if necessary, makes appropriate adjustments to the historical data prior to publishing the new normals so that the new normals are presented on a basis consistent with the current site and instrumentation. Changes that occur subsequent to the release of the new normals are not reflected until the publication of subsequent normals at the end of the next decade. These complications make traditional weather normalization extremely complex as the slightest bias in temperature data may result in material variations in revenue requirement when applied on such a precise basis in ratemaking.

Q. Is the unreliability of 30-year normals in representing ongoing climate conditions, as evidenced by the deviation between actual degree day experience and the NOAA 30-year normals, likely to continue or is it simply the result of natural weather variability?

A. I believe it is unlikely that natural weather variation is the sole cause underlying the mild winters experienced in recent years. The increased incidence of warmer-than-normal heating seasons is of particular concern in light of the increasing recognition and acceptance within the scientific community of the existence of climatic warming, urbanization and heat island effects in metropolitan areas, and other factors contributing to an overall warming trend. The warm weather experienced in the St. Louis area in recent years is consistent with climatic warming trends being experienced elsewhere. In my opinion, it would be extremely unlikely that such experience resulted from chance alone, and we should not expect or hope that weather fluctuations "level out" over a span of years to keep the Company financially stable. These concerns, as well as the effect of potential timing and measurement issues, have been addressed in the ratemaking process through the weather mitigation rate design.

Q. How do weather mitigation measures help alleviate the problems associated with weather normalization and determining an appropriate level of normal heating degree days?

A. The Company's weather mitigation rate design allows the Company to recover a significant portion of what are basically fixed distribution costs, as well as providing a more stable pricing environment for the Company's customers, despite extreme variations in weather conditions. Therefore, the weather mitigation rate design substantially reduces the burden of determining precisely an appropriate number of normal heating degree days in establishing sales levels because the financial impact of biases or significant variations from those levels is

not as material as it would otherwise be without weather mitigation measures. Although a reasonable level of normal degree days is needed to ensure equity for ratepayers and shareholders, the weather mitigation rate design reduces the magnitude of significant shortfalls or windfalls in customer revenues that are likely to occur, from year to year or over extended time periods, using 30-year normals. The weather mitigation rate design more equitably serves both the shareholder and the ratepayer when compared to the prior "win or lose" ratemaking methodology that utilized 30-year normals without weather mitigation measures. The weather mitigation rate design is described in the testimony of Company witness M. T. Cline filed in this case.

Q. What level of heating degree days are you sponsoring in your adjustment?

A. Adjustment 1.a. reflects the increase in revenues at base rates for customers served under the general service rate to the level that would have been achieved at 4,691 degree days. This level of heating degree days reflects the 30-year period ended December 2004. Under the current rate design structure, continued use of a 30-year normal is adequate. This level of heating degree days was determined by incorporating the 30-years of historical data utilized in NOAA's most recently published normals based on the 1971-2000 period. However, actual data for the January 2001 through December 2004 period was substituted for the January 1971 through December 1974 period to update NOAA's most recently published normals to incorporate recent weather experience. Actual revenues for the twelve months ending September 2004 reflected 4,179 heating degree days on a billing

cycle basis. This was 512 heating degree days less than the normal heating degree day level.

Q. What is the significance of using heating degree days on a billing cycle basis?

A. Heating degree days recorded on a calendar day basis have been converted by the Company to a billing cycle basis, which reflects the Company's cycle method of billing its customers. Although the Company recognizes revenues on a calendar-month basis for financial reporting, its underlying records are maintained on a cycle billing basis, with a separate entry each month to adjust to a calendar month basis. I am also sponsoring an adjustment to reverse this entry, effectively returning the income statement set out on Schedule 4 to a billing cycle basis. Under this method, the Company recognizes revenue as recorded by its meters, which are read throughout the month. Thus, monthly billing cycle revenues do not reflect usage through month-end for most customers but generally reflect one month of consumption ending on various days during the billing month. For consistency, heating degree days have been calculated on a billing cycle basis.

Q. Please continue with your explanation of adjustment 1.a.

A. Normalization adjustments were calculated to reflect the effect of normal weather on therm sales and revenues. A separate calculation was made for each of the general service rates for each operating division. The general service rates include residential and three classes of commercial and industrial customers categorized by annual usage requirements. Under the current rate design structure, each rate billed under the general service tariff is billed monthly based on therms used in two billing blocks. In each case, regression analysis was used

to determine the normalized total monthly average use per bill. Regression analysis was also used to determine the normalized average monthly use per bill for the therms billed in the first billing block. The normalized monthly average use per bill for the second billing block was calculated by subtracting the normalized average monthly use per bill for therms billed in the first billing block from the total.

Q. How did you calculate the revenue adjustment?

A. The normalized block one and block two use per bill amounts were subtracted from the respective actual block one and block two use per bill amounts for each month of the test year. The adjustments to average block one and block two use per bill were next multiplied by the actual bills for each month of the test year. The resulting block one and block two therm sale adjustments were then multiplied by the appropriate rate per therm for each block to calculate the adjustment to net revenues for each rate class by division.

Q. Please describe the regression methodology employed to determine the monthly normalized use per bill.

A. Regression analysis was used to develop quantitative measures to determine relationships between average monthly therm sales per bill and factors upon which therm usage is dependent. Although customer usage is primarily dependent on heating degree days, it has long been recognized that other factors, to a lesser extent, play a role in determining customer usage. These factors include the average number of days in each month's billing cycle and variations in seasonal responses to heating degree days. Regression analysis was used to

determine the best fit between actual average use per bill per month and actual billing cycle degree days by month, along with other factors deemed statistically significant in providing the best results. For the residential class, the regression analyses were generated using data from the June 1996 through September 2004 period to allow the analyses to consider sufficient data points, thereby taking into account actual usage results under a wider variety of weather conditions.

Q. Were there other reasons to use multiple years of data?

A. Yes. The normalization of therms in the first billing block by month is critical under the current rate design structure. It is necessary to use more than one data point for each month to capture block 1 usage under varying weather conditions and thereby produce more reliable results for the first billing block.

Q. Please continue.

A. Effective with implementation of rates on November 9, 2002, the commercial and industrial general service class was subdivided into three different groups, each with different block one seasonal thresholds for billing purposes. For purposes of weather normalization, billing history was generated for each of the three commercial and industrial rate classes based on the current customer profile for each rate class so that a sufficient amount of billing data could be utilized in the regression analyses. The data used in the commercial and industrial regression analyses was based on actual billing data for the January 1998 through September 2004 period. Since the threshold for the first billing block is different in the winter and summer periods for two of the three rate classes, regression analyses

were performed separately for the winter and summer periods to determine normalized block one use per bill for these groups.

Q. Please describe the results of your regression analyses.

A. The monthly use per bill projected by the model was plotted against the actual monthly use per bill for each division in each rate class. The plots demonstrate good agreement between modeled and actual usage. A detailed analysis of the model performance statistics also support the use of this approach. Further analytical evaluation of the results concluded that the projections were reasonable when compared to actual experience over an extended period of time.

Q. Are you sponsoring any other adjustments related to weather normalization?

A. Yes. Adjustment 1.b. reflects the increase in revenues at base rates for customers served on the large volume and transportation service rates to the level that would have been achieved at 4,691 degree days. Although gas requirements for customers served on these service rates are primarily for purposes other than spaceheating, some customers served on these rates exhibit some degree of weather sensitivity. An average heating use per degree day for each rate and revenue class was determined by deducting the annualized May through October 2004 usage from the total usage for these groups of customers and dividing by actual degree days for the test year. The degree day variation from normal was multiplied by the average heating usage per degree day and priced at the appropriate second block base rate.

Q. Does this complete your discussion of weather?

A. Yes, it does.

Infrastructure System Replacement Surcharge

Q. Please explain the adjustment related to the Infrastructure System Replacement Surcharge.

A. Adjustment 1.i. excludes the total amount billed during the test year for the Infrastructure System Replacement Surcharge that was implemented June 10, 2004. Amounts billed under the Infrastructure System Replacement Surcharge will cease with the implementation of new rates established through this proceeding.

Unbilled Revenues

Q. Please explain the revenue adjustment involving accruals of unbilled revenues.

A. Adjustment 1.j. removes accruals of unbilled revenues from test year operating income.

Q. Why have you made this adjustment?

A. The Company reads meters throughout the month, so revenues billed to our customers do not reflect usage through the end of the month in most cases. The Company records revenues and the related cost of gas for all gas delivered during a month. This method properly reports revenues in the period in which gas was used by our customers but requires that estimates of sales be made each month between the date meters were read and the end of the month. Adjustments 1.j. and 2.a. eliminate the effect of these estimates so that test year revenues and gas costs are based on an actual billed twelve-month period.

Off-System Sales and Capacity Release

Q. Please explain the adjustments related to the Company's revenues from off-system sales and the release of pipeline capacity.

A. Adjustments 1.k. and 2.b. adjust revenues and gas cost expense related to off-system sales and capacity release to a normalized level of net revenues.

Q. Why have you made these adjustments?

A. I am sponsoring adjustment 1.k. to reduce the revenues and adjustment 2.b. to reduce the gas cost expense associated with these items recognized during the twelve months ended September 30, 2004 to a level that is representative of ongoing conditions as discussed further in the testimony of Company witness K. J. Neises.

Rates Used in Calculation of Adjustments

Q. What rates have you used to price out the revenue adjustments you have made to test year utility operating income related to on-system sales levels?

A. Revenue adjustments related to on-system sales have been calculated using the non-gas rates in the Company's tariffs, effective November 9, 2002, that are designed to recover the Company's cost of service, other than the cost of purchased gas. The Purchased Gas Adjustment (PGA) Clause included in Laclede's tariffs provides for current recovery of projected gas cost levels and for deferred recovery of other gas cost price differences. Changes in the PGA rate are made on a prorated basis for billing purposes, based on number of days at the respective rate. In addition, differences that occur between PGA revenue recovery and experienced gas cost are adjusted through deferral. Adjustment 1.m.

eliminates from the income statement all gas costs included in revenues associated with amounts billed to customers under the Company's PGA Clause. Accordingly, Adjustment 2.c. eliminates the natural gas costs associated with billed sales. Since all gas costs have been removed from the income statement, we have not adjusted revenues for PGA rates in our individual adjustments of revenue. This makes some of the adjustments less complicated and has absolutely no impact on the Company's pro forma operating income because in each case we use non-gas rates to calculate revenue. In other words, if we had changed PGA revenue, we would also have changed expenses by exactly the same amount of adjusted natural gas cost and the result would have been the same operating income as the one calculated in our filing. In addition, we have not adjusted for gross receipts taxes in the revenue adjustments because if we had done so, we would have again adjusted exactly the same amount of dollars in the expense account for Taxes Other Than Income. As with the PGA, we have eliminated several calculations without changing the net result.

Gross Receipts Taxes

Q. Please explain the adjustment to Taxes Other Than Income related to gross receipts tax expense.

A. Adjustment 8.f. normalizes, for ratemaking purposes, the gross receipts tax expense related to certain townships based on the level of gross receipts taxes recorded in test year revenues. Gross receipts taxes are levied upon and collected by the Company as a license to do business in certain municipalities that impose a license tax on gas sales. All gross receipts taxes billed to customers are recorded

in the billing month as revenues, and are ultimately expensed in the current or subsequent months as appropriate. This adjustment is necessary to eliminate net revenues during the test year resulting from timing differences in recognizing revenues and expenses related to these particular municipalities, thereby eliminating any impact on revenue requirement as a result of obligations imposed on the Company to collect and remit gross receipts taxes on behalf of these municipalities.

Depreciation and Amortization

Q. Are you sponsoring any adjustments to depreciation and amortization expense?

A. Yes. Adjustments 7.a. and 7.b. show calculations that increase depreciation expense and decrease amortization expense, respectively, to the levels expected as of March 31, 2005. This amount is based on depreciation rates proposed by Company witness J. J. Spanos. Applicable utility plant in service estimated at March 31, 2005 was multiplied by these effective rates. The resulting annualized amount was compared to actual test year expense to derive the adjustment. The test year included reduced expense associated with a theoretical reserve adjustment as ordered in Case No. GR-2002-356. Adjustment 7.a. effectively terminates the negative amortization associated with that Order, but includes an amortization of a theoretical reserve adjustment over the average remaining service lines of our property as addressed in the testimony of Company witness J. J. Spanos.

Costs of Removal

Q. Are you sponsoring any other income statement adjustments?

A. Yes. During the 12 months ended September 30, 2004, actual removal costs of retired utility plant were included in operating expense, pursuant to the Stipulation and Agreement in Case No. GR-2001-629. As the result of the outcome of certain judicial review proceedings, the depreciation rates proposed by Company witness J. J. Spanos include provision for costs of removal. Adjustment 7.a. adjusts depreciation expense to a level reflecting implementation of the proposed depreciation rates. Accordingly, Adjustment 7.c. provides for costs of removal to be treated as an item of depreciation expense, by excluding the actual costs of removal incurred during the test year charged to operating expense.

Appliance Service Work

Q. Are you sponsoring any other income statement adjustments?

A. Yes. Adjustment 6.d. eliminates the net revenues related to the Company's appliance service work, pursuant to Section 386.756 (RSMo. Supp. 1998). Consistent with the statute, my adjustment effectively excludes all of the revenues received by the Company and costs incurred by the Company as a result of the Company's involvement in HVAC service work during the test year. Costs incurred include labor, materials, advertising, administrative and general expenses, and transportation costs (including related depreciation expense).

Q. Does this conclude your direct testimony?

A. Yes, it does.

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)

Patricia A. Krieger, of lawful age, being first duly sworn, deposes and states:

1. My name is Patricia A. Krieger. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Manager-Accounting 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.

Patricia A. Krieger

Subscribed and sworn to before me this 18th day of February, 2005.

Joan T. Roeper

JOAN T. ROEPER
Notary Public — Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: June 9, 2007