

Exhibit No.:	
Issue:	Purpose and Intent of Stipulation and Agreement
Witness:	Patricia A. Krieger
Type of Exhibit:	Direct Testimony
Sponsoring Party:	Laclede Gas Company
Case No.	GC-2011-0098
Date Testimony Prepared:	March 22, 2011

LACLEDE GAS COMPANY

GC-2011-0098

DIRECT TESTIMONY

OF

PATRICIA A. KRIEGER

1 **DIRECT TESTIMONY OF PATRICIA A. KRIEGER**

2 Q. Please state your name and business address.

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

5 Q. What is your present position?

6 A. I am Director, External Financial Reporting for Laclede Gas Company (“Laclede”
7 or “Company”).

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

10 A. I was promoted to my present position in September 2006. I am responsible for
11 managing a department that is responsible for the Company’s external financial
12 reporting, as well as compliance with accounting principles generally accepted in
13 the United States of America, and the accounting-related rules and regulations of
14 this Commission. The department is responsible for filings with the Securities
15 and Exchange Commission (SEC), this Commission, and the FERC.

16 Q. Will you briefly describe your experience with the Company prior to becoming
17 Director, External Financial Reporting?

18 A. I joined Laclede in November, 1976 as an Accountant in the Corporate
19 Accounting Department. I was promoted to Senior Auditor in June, 1979 and
20 transferred to the Internal Audit Department. In June, 1983, I was transferred to
21 the Budget Department, where I served as Senior Budget Analyst and Assistant
22 Manager until being promoted to Manager of the Budget Department in April,
23 1988. I held that position until being promoted to Manager of Accounting in

1 January 1997 where I was responsible for managing three departments: Financial
2 Reporting, Gas Accounting and Asset Management. These departments maintain
3 the books of the Company, are responsible for accounting activities relating to the
4 Company's natural gas costs and customer revenues (including analyses of the
5 effects of weather on customer sales), and are responsible for maintaining the
6 continuing property records of the Company.

7 Q. What is your educational background?

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

10 Q. Have you previously filed testimony before this Commission?

11 A. Yes, I have. I have previously filed testimony in Cases Nos. GC-2011-0006, GR-
12 2010-0171, GR-2007-0208, GR-2005-0284 GR-2002-356, GR-2001-629, GM-
13 2001-342, GR-99-315, GR-98-374, GR-96-193, and GR-94-220.

14 **PURPOSE OF TESTIMONY**

15 Q. What is the purpose of your testimony?

16 A. In Count III of its Second Amended Complaint, Staff alleges that Laclede has
17 never filed for Commission approval of its CAM. Further, Staff has indicated that
18 it has no obligation to respect or otherwise conduct its audit in accordance with
19 the allegedly unapproved CAM. The purpose of my testimony is to provide the
20 Commission with background on the events and circumstances surrounding the
21 origination of the CAM as part of the Stipulation and Agreement approved by the
22 Commission in Case No. GM-2001-342 ("2001 S&A").

CASE NO. GM-2001-342

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Q. Why was Case No. GM-2001-342 initiated?

A. The primary purpose of Case No. GM-2001-342, which was initiated and completed in 2001, was to obtain Commission approval for a corporate restructuring under which a newly created parent corporation – The Laclede Group, Inc. – would assume ownership of Laclede Gas Company as well as a number of Laclede’s corporate subsidiaries.

Q. Was the restructuring intended to change the status of Laclede and its subsidiaries as distinct entities?

A. No. Although various direct or indirect subsidiaries of Laclede, such as Laclede Energy Resources (“LER”), became “sister” affiliates of Laclede due to restructuring, their status as distinct and separate entities was not affected by the restructuring. In other words, they were legally distinct entities before the restructuring and remained so after the restructuring.

Q. What was your role in Case No. GM-2001-342?

A. My main role was to submit testimony setting forth one of the main “safeguards” that the Company was willing to implement to address anticipated concerns the Commission Staff (“Staff”) and Office of the Public Counsel (“OPC”) might have over the potential impact of the restructuring on the Company’s utility customers. Specifically, I described the Cost Allocation Manual (“CAM”) that the Company had developed to govern transactions with its affiliates following the restructuring. Although cost allocation practices to account for intercompany transactional activities existed prior to restructuring, the CAM was developed to

1 provide formal documentation of the policies to be applied to future affiliated
2 activities. Among other things, the CAM, much like the Commission's affiliate
3 transactions rules, established pricing standards to govern the transfer of goods
4 and services between Laclede and its affiliates. The purpose of these pricing
5 standards was to ensure that any unregulated activities undertaken by Laclede's
6 affiliates would not be subsidized by its regulated operations, thereby resulting in
7 a detriment to the Company's utility customers. The CAM also addressed the
8 kind of access that Staff, OPC and other parties would have to affiliate records
9 following the restructuring. A copy of my testimony in that proceeding is set
10 forth in Schedule PAK-1, which is attached to my direct testimony.

11 Q. Did the Staff and OPC ultimately raise the kind of concerns that had been
12 anticipated by the Company?

13 A. Yes. As they had in other proceedings involving corporate reorganizations, both
14 Staff and OPC were concerned that customers could be adversely impacted by the
15 pricing and cost allocation of affiliate transactions.

16 Q. Did the Staff and OPC also recommend the development and implementation of a
17 CAM as the preferred mechanism for protecting ratepayers from inappropriate
18 cross-subsidization?

19 A. Yes. In their pre-filed testimonies, both Staff and OPC recommended that a CAM
20 be used to achieve this goal. The Staff was particularly insistent on the need to
21 implement such a mechanism, as well as measures that would ensure the
22 Company's compliance with the mechanism.

23 Q. What specifically did the Staff recommend?

1 A. In his rebuttal testimony in Case No. GM-2001-342, Staff witness Stephen M.
2 Rackers not only endorsed the use of a CAM, but also recommended that a
3 number of provisions be added to the CAM, which had been attached to my direct
4 testimony in that case, so as to further ensure that ratepayers would be adequately
5 protected in transactions between the Company and its affiliates. (See Schedule
6 PAK-2 which contains a copy of the Rebuttal Testimony of Stephen M. Rackers).
7 Some of these provisions were aimed at providing additional detail in the CAM
8 on how specific transactions between Laclede and its affiliates should be priced or
9 otherwise accounted for. For example, Staff recommended that for each specific
10 kind of good or service purchased or sold between the Company and an affiliate,
11 the CAM should contain a “detailed description of the basis for the charges”
12 associated with the particular sale or purchase item, including a “detailed
13 description of how market values are determined for each good or service.”
14 (Schedule PAK-2, Schedule 2-2 to Rackers’ Rebuttal Testimony). In addition to
15 recommending that the CAM include this more detailed description of how
16 transactions would be priced, the Staff also insisted on the Company
17 implementing various measures aimed at making compliance with the CAM an
18 essential component of the Company’s corporate culture.

19 Q. What did these measures consist of?

20 A. Among other things, the Staff insisted that the Company’s Code of Conduct
21 contain language to ensure employee adherence to the Company’s policies and
22 procedures under the CAM and that the Company discipline employees who did

1 not comply with the CAM, including possible termination of employment. (*Id.* at
2 Schedule 2-3)

3 Q. Did the Staff give any other indication of its views regarding the importance of
4 the CAM?

5 A. Yes, after extensive negotiations, both the Staff and OPC agreed to the 2001 S&A
6 which set out in detail the various CAM provisions that the parties had agreed to
7 implement based upon the testimony submitted by the various parties. (See
8 Section VI of the Unanimous Stipulation and Agreement; a copy of which is
9 attached as Schedule PAK-3 to my Direct Testimony). In addition to requiring
10 that the Company conduct its transactions with affiliates in accordance with the
11 terms of the CAM, the 2001 S&A also established a process for revising the CAM
12 consistent with Staff's recommendations and for submission of CAM reports
13 annually thereafter.

14 Q. Aside from its testimony and the terms of the 2001 S&A, did the Staff give any
15 other indications in Case No. GM-2001-342 that the CAM was to be used as the
16 mechanism for pricing affiliate transactions?

17 A. Yes. This recognition of the central importance of the CAM for purposes of
18 pricing affiliate transactions in a way that would protect ratepayers was
19 reaffirmed in the Suggestions that Staff subsequently filed in support of the 2001
20 S&A. In that document, the Staff noted that the Company had accepted
21 substantially all of the CAM provisions sought by the Staff and then went on to
22 observe that the CAM "should be maintained and submitted to ensure that
23 ratepayers were not being harmed by any affiliate corporate transactions that

1 might take place after the proposed restructuring.” In other words, the Staff
2 recognized in its Suggestions that the CAM was both a product of Staff’s
3 considerable input as well as the parties’ chosen mechanism for ensuring that
4 ratepayers would be protected in transactions involving Laclede and its affiliates.
5 A copy of these Suggestions is attached as Schedule PAK-4 to my Direct
6 Testimony.

7 Q. Did the Staff and OPC also discuss the need for post-restructuring access to
8 affiliate information regarding the CAM?

9 A. Yes. Like the Company, both Staff and OPC filed testimony addressing the need
10 to maintain access to certain affiliate information to verify compliance with the
11 CAM following the restructuring.

12 Q. Did the Company ultimately agree to provide such access to affiliate records?

13 A. Yes, but the agreement to provide access to affiliate records was not unqualified.
14 Specifically, the obligation to provide any information at all was explicitly
15 conditioned by Section IV of the 2001 S&A on whether such information was
16 “reasonably required to verify compliance with the CAM and the conditions set
17 forth in the [2001 S&A]” or otherwise “relevant to the Commission’s ratemaking,
18 financing, safety, quality of service and other regulatory authority over Laclede
19 Gas Company.” (Schedule PAK-3, p. 8). So long as the information requested
20 met this criteria, and only so long as it did, the Company also agreed that it would
21 not object to providing it on the grounds that such information was not within the
22 “possession or control of Laclede Gas Company” or “was either not relevant or

1 not subject to the Commission’s jurisdiction . . . by virtue of or as a result of the
2 implementation of the Proposed Restructuring.” (*Id.* at p. 9).

3 Q. Was the 2001 S&A eventually approved by the Commission?

4 A. Yes, the Commission issued its Order approving the 2001 S&A effective on
5 August 24, 2001.

6 Q. Was it your understanding that the Commission was approving Laclede’s CAM
7 when it approved the 2001 S&A?

8 A. Yes. The 2001 S&A specified that the CAM would be in the form I had
9 recommended in my direct testimony, as revised and supplemented (within 120
10 days) to include the various items that Staff had recommended in its testimony to
11 administer, audit and verify the “Transfer Pricing and Costing Methodologies” set
12 forth in the CAM. Accordingly, in approving the 2001 S&A, the Commission
13 explicitly approved most of the substantive provisions of the CAM as well as the
14 specific process for completing the more detailed descriptions of how particular
15 goods and services should be priced, as Staff had recommended in its testimony.

16 Q. Was the process recommended by the parties and approved by the Commission
17 for finalizing the CAM completed in accordance with the terms of the 2001 S&A?

18 A. Yes, on December 21, 2001, the Company submitted its revised CAM to the
19 Staff, OPC and its Union with all of the information that had been ordered by the
20 Commission through its approval of the 2001 S&A. It remained unchanged, until
21 a slightly revised version was submitted to the Staff and OPC in March of 2004.

22 Q. Did the Staff or OPC ever take issue with the CAM after it was finalized and
23 submitted in December 2001?

1 A. No. To the best of my knowledge, neither the Staff nor OPC expressed any
2 concerns whatsoever regarding any provision of the finalized 2001 CAM.

3 Q. Aside from the considerations discussed above, are there any other reasons why
4 you find Staff's complaint regarding an alleged lack of Commission approval for
5 the CAM puzzling?

6 A. Yes. While I believe Laclede's CAM has in fact been approved by the
7 Commission for the reasons previously stated, I cannot understand why the Staff,
8 even if it believed otherwise, would initiate a complaint against Laclede based on
9 an asserted failure to obtain such approval. It is my understanding from Laclede's
10 legal counsel that it has not been the custom or practice of other utilities subject to
11 the Commission's jurisdiction to seek and obtain the kind of regulatory approval
12 that the Staff now claims Laclede should have obtained for its CAM. As a
13 consequence, Staff's position in this case would suggest that other utilities subject
14 to the Commission's affiliate transactions rules have been operating in direct
15 violation of the rules for literally years, all with Staff's apparent knowledge and
16 approval. Of course, I do not believe that the utilities of this state, anymore than
17 Laclede, have been engaged in the kind of obvious and repeated violations of the
18 affiliate transactions rules envisioned by Staff's new found views on what it takes
19 to comply with any CAM approval requirement. And, I believe the absence of
20 any other Staff complaints on this matter is a telling indication that Staff knows
21 no such violation has occurred.

1 Q. Staff has alleged in Count II of its Second Amended Complaint that Laclede's
2 CAM does not provide asymmetrical pricing standards for gas purchases and
3 sales. Did Laclede change the pricing standards in the CAM?

4 A. No. For reasons explained by Laclede witness Michael Cline, it was apparent
5 from the outset that, for gas purchases and sales, fair market value will always be
6 the prevailing standard when comparing fair market value and fully distributed
7 cost. This determination, which is the appropriate way to look at this matter, was
8 reflected in the original CAM submitted to Staff in December 2001.

9 Q. So the central issue in the complaint filed by Staff in 2010 involves the issue of
10 whether Laclede has violated the law by complying with a pricing standard (a)
11 that was established at Staff's request, (b) that was implemented as a direct result
12 of a Commission-approved Stipulation and Agreement, and (c) that has been in
13 use since December 2001 with Staff's full knowledge.

14 A. That is correct. I would only add that it is a standard that has also been reflected
15 in the CAM annual reports filed by Laclede since 2003.

16 Q. Does this conclude your direct testimony?

17 A. Yes.

Exhibit No.:
Issue: Cost Allocation Manual
Witness: Patricia A. Krieger
Type of Exhibit: Direct Testimony
Sponsoring Party: Laclede Gas Company
Case No.: GM-2001-342

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Missouri Public
Service Commission

LACLEDE GAS COMPANY

DIRECT TESTIMONY

OF

PATRICIA A. KRIEGER

April 23, 2001

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APR 23 2001

OFFICE OF THE PUBLIC COUNSEL

Schedule PAK-1

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

In the Matter of the Application of Laclede)
Gas Company for an Order Authorizing)
Its Plan to Restructure Itself Into a Holding) Case No. GM-2001-342
Company, Regulated Utility Company, and)
Unregulated Subsidiaries.)

AFFIDAVIT

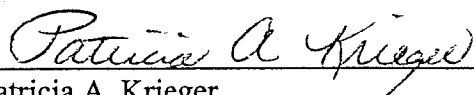
STATE OF MISSOURI)
)
CITY OF ST. LOUIS)

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 of Accounting of Laclede Gas Company..

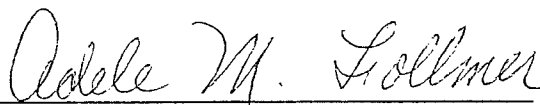
2. Attached hereto and made a part hereof for all purposes is my direct testimony, consisting of pages 1 to 8, and Schedule No. 1, inclusive.

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 23 day of April, 2001.



ADELE M. FOLLMER
Notary Public — Notary Seal
STATE OF MISSOURI
Jefferson County
My Commission Expires: June 11, 2004

**DIRECT TESTIMONY
OF
PATRICIA A. KRIEGER**

1

2 Q. Please state your name and business address.

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

5 Q. What is your present position?

6 A. I am Manager of Accounting for Laclede Gas Company.

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

9 A. I was promoted to my present position in January, 1997. I am responsible for
10 managing four departments: Financial Reporting, General Accounting, Gas
11 Accounting, and Asset Management. These departments maintain the books of
12 the Company in accordance with generally accepted accounting principles and the
13 rules and regulations of this Commission. Financial Reporting duties include
14 preparing reports to the Securities and Exchange Commission, to stockholders,
15 and to this Commission. General Accounting duties include processing of
16 payments to our suppliers and maintaining various records. Gas Accounting
17 accounts for the Company's natural gas costs and customer revenues, as well as
18 analyzing the effects of weather on customer sales. Asset Management maintains
19 the continuing property records of the Company and carries out related duties.

20 Q. What is your educational background?

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

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

3 I joined Laclede in November, 1976 as an Accountant in the Corporate
4 Accounting Department. I was promoted to Senior Auditor in June, 1979 and
5 transferred to the Internal Audit Department. In June, 1983, I was transferred to
6 the Budget Department, where I served as Senior Budget Analyst and Assistant
7 Manager until being promoted to Manager of the Budget Department in April,
8 1988. I held this position until being promoted to Manager of Accounting.

9 Q. Have you previously filed testimony before this Commission?

10 A. Yes, I have.

11 Q. What is the purpose of your direct testimony?

12 A. The purpose of my direct testimony is to discuss the accounting procedures that
13 the Company has developed to govern any transfers of goods and services
14 between Laclede Gas Company and its affiliated entities following the revision to
15 the Company's corporate structure that has been proposed in this proceeding (the
16 "Proposed Restructuring.")

17 Q. What is the purpose of these accounting procedures?

18 A. The purpose of these accounting procedures is to ensure that costs are properly
19 allocated so that the rates and charges paid by Laclede's customers for regulated
20 utility service will not be increased as a result of such transactions between
21 Laclede and its affiliated entities following the Proposed Restructuring.

22 Q. Do such transactions take place now?

1 A. Yes. Since Laclede presently has a number of unregulated subsidiaries, there is
2 already some level of transactional activity that takes place between Laclede's
3 regulated and unregulated companies. As a result, the Proposed Restructuring
4 will not, in and of itself, allow the Company to engage in any affiliate transaction
5 activities that it can not already undertake. Nevertheless, the Company is willing
6 to implement a more formal set of procedures going forward to govern such
7 transactions in order to allay any concerns that the Company's ratepayers could be
8 disadvantaged by any cost shifting due to the Proposed Restructuring.

9 Q. Please describe the procedures that Laclede has developed for this purpose.

10 A. The accounting procedures that Laclede has developed for this purpose are
11 reflected in the Cost Allocation Manual ("CAM") that is set forth in Schedule 1 to
12 my direct testimony.

13 Q. Please outline what is included in the CAM.

14 A. Sections I and II of the CAM establish the overall purpose of the CAM, i.e. that it
15 is designed to prevent any improper cross-subsidization between Laclede's
16 regulated and unregulated companies by establishing accounting procedures to
17 govern the transfers of goods and services between those companies. Section III
18 references the Services and Facilities Agreement ("SFA") that is attached to the
19 CAM.

20 Q. What is the purpose of the SFA?

21 A. The SFA is a legal agreement that will be signed by Laclede Gas Company and
22 all of its affiliated companies. Its purpose is to formally bind Laclede and the

1 companies to performing their affiliated transactions in accordance with the
2 procedures set forth in the CAM.

3 Q. Please continue with your discussion of the CAM.

4 A. Section IV of the CAM contains procedures for ensuring that the accounting and
5 transfer pricing principles set forth in the CAM are complied with. Among other
6 measures, these include requirements to: (a) maintain adequate books and records
7 with regard to the transactions addressed by the CAM; (b) provide Staff and
8 Public Counsel with access to such records; (c) conduct periodic audits of the
9 CAM and the SFA to ensure compliance; and (d) examine computer systems,
10 billings and source documentation to make sure that the services and facilities
11 being used in transactions between Laclede and its affiliates are properly
12 authorized and documented.

13 Q. Does the CAM specify what services and facilities may be utilized in transactions
14 between Laclede Gas Company and the affiliated companies?

15 A. Yes. Section V contains a fairly exhaustive and specific list of the facilities and
16 services that may be used in such transactions. It also contains language
17 clarifying that Laclede and the other companies will not be required to provide
18 any service or facility that they are not capable of providing or to provide such
19 services and facilities under circumstances that would interfere with their normal
20 operations.

21 Q. What does Section VI of the CAM address?

1 A. Section VI addresses any transfer of assets between Laclede Gas Company and its
2 affiliates. It provides that all such transfers must comply with controlling laws
3 and regulations.

4 Q. Does the CAM also specify how one company will charge or be paid for any
5 services or facilities that are used to perform a transaction with another company?

6 A. Yes. Section VII provides that such charges will be determined in accordance
7 with the transfer pricing and costing methodologies set forth in Section VIII. It
8 also specifies that payments will be made on a monthly basis and that a late
9 payment fee will be applied if payment is not made by the last day of the month
10 following the month in which the service was rendered.

11 Q. You indicated that Section VIII establishes the transfer pricing and costing
12 methodologies that will be used to determine the charges for such transactions.
13 Please describe those methodologies.

14 A. Consistent with the concept embodied in the Commission's affiliate transactions
15 rules, Section VIII provides that Laclede Gas Company will be charged for any
16 facilities or services provided to it by an affiliated company at the lesser of the
17 fair market value for such service or facility or the fully distributed cost to
18 Laclede to provide the goods or services for itself. For facilities or services
19 provided by Laclede to an affiliate, Section VIII provides that Laclede will charge
20 for such services and facilities at the tariff rate or, if no tariff rate exists, at the
21 fully distributed cost incurred by Laclede in providing such facility or service,
22 unless an alternative method is prescribed by law.

1 Q. You mentioned the Commission's affiliate transactions rules. Is Laclede
2 currently subject to those rules?

3 A. I have been advised by legal counsel that Laclede is not currently subject to the
4 Commission's affiliate transactions rules due to Laclede and other utilities having
5 obtained a stay pending an appeal of such rules. Nevertheless, the Company has
6 attempted to incorporate in its CAM a number of the major costing principles set
7 forth in those rules. Laclede will, of course, also comply with the other
8 provisions of the rules in the event, and to the extent, such rules are ultimately
9 upheld by the courts.

10 Q. Does Section VIII also specify how fair market value and fully distributed cost as
11 used in the transfer pricing standards will be determined?

12 A. Yes. Section VIII sets forth the principles and procedures that will be used to
13 determine fair market value and fully distributed cost. For determining fair
14 market value, Section VIII references the use of prevailing prices for the goods,
15 services or facilities that are being provided to Laclede. It also describes
16 alternative methods that can and will be used to determine fair market value if no
17 prevailing price exists. With regard to the determination of fully distributed costs,
18 Section VIII describes how direct labor and material costs, as well as the direct
19 costs for purchased services, will be identified and factored into the
20 determination. It also specifies that costs apportioned to a service shall, where
21 applicable, include a proportionate share of the Company's indirect and otherwise
22 allocated costs, including a proportionate share of the administrative and general

1 costs and a share of the cost of facilities, equipment, machinery, furniture or
2 fixtures, used to provide the service.

3 Q. Does the CAM provide a method for resolving any billing disputes that may arise
4 between the companies in connection with a transaction?

5 A. Yes. Section IX provides a method for the management of the companies to
6 resolve any such disputes that may arise.

7 Q. Does the CAM also recognize that there may be exceptions when the pricing and
8 costing guidelines set forth in the CAM will not be followed?

9 A. Yes. Section X recognizes several of these exceptions. One, of course, relates to
10 those circumstances where another methodology for pricing or costing such
11 transactions is prescribed by law. The other relates to those situations where
12 Laclede has determined that application of the methodologies set forth in the
13 CAM would not be in the best interests of its customers. Under such
14 circumstances, Laclede must still maintain information sufficient to show how the
15 transaction would have been priced or accounted for had the methodologies set
16 forth in the CAM been followed. It also specifies that such alternative
17 methodology will be subject to review and adjustment in any subsequent rate case
18 proceeding.

19 Q. In your opinion does the CAM provide adequate assurances that there will not be
20 improper cross-subsidization between Laclede and its unregulated affiliates upon
21 completion of the Proposed Restructuring?

22 A. Yes, it does.

23 Q. Is the Company willing to consider additional modifications to the CAM?

1 A. Yes. As it has throughout this proceeding, Laclede will continue to work with the
2 Staff and Public Counsel to examine additional modifications to the CAM that
3 may be reasonably necessary to meet the goals and objectives underlying the
4 CAM.

5 Q. Does this conclude your direct testimony?

6 A. Yes.

COST ALLOCATION MANUAL

February, 2001

The Laclede Group, Inc.
Laclede Gas Company
Laclede Investment Corporation
Laclede Development Company
Laclede Pipeline Company
Laclede Energy Resources, Inc.
Laclede Venture Corp.
Laclede Gas Family Services, Inc.

720 Olive Street - St. Louis, MO 63101

I. INTRODUCTION

Laclede Gas Company (“Laclede Gas”) has filed an Application with the Missouri Public Service Commission (“Commission”) seeking to restructure its operations and to form a holding company, The Laclede Group, Inc. (“Laclede Group”). As more fully described in the Application, the restructuring is being undertaken in order to provide further separation between utility and non-utility operations.

In order to preserve and supplement existing protections against improper cross-subsidization, Laclede Gas Company submits this Cost Allocation Manual (“CAM”) which it proposes to implement post-restructuring. The CAM sets forth policies and procedures to be followed when Laclede Gas Company engages in any transactions with its affiliates. The CAM and procedures set forth herein will facilitate Commission audits and provide assistance in evaluating the cost of regulated services.

The present version of the CAM addresses some, but not all of the regulations adopted by the Commission in its recent Rulemaking on affiliate transactions. Those rules are currently under appeal and their implementation has been stayed during this process. However, this CAM can readily be updated to reflect the outcome of any final judicial resolution of the Commission's affiliate transactions rules.

II. SCOPE OF AFFILIATE TRANSACTIONS

The number and scope of affiliate transactions post-restructuring will be limited. Laclede Gas Company will be the largest company in the new structure and will have the greatest number of employees who will remain devoted to providing high quality gas service.

Nonetheless, there may be opportunities to share certain administrative and other functions among system companies to introduce efficiencies to purchasers of regulated and

unregulated services alike. This CAM is designed to ensure that such cost-saving opportunities are accounted for in a manner that, consistent with applicable law and regulation, reasonably prevents inappropriate cross-subsidization.

III. SERVICES AND FACILITIES AGREEMENT

The Laclede Group and each affiliate taking or receiving services, sharing facilities or having other affiliate transactions with Laclede Gas will sign and become a party to a Services and Facilities Agreement (“SFA”). The SFA establishes procedures, terms and conditions for providing shared services and facilities and other activities. A copy of the SFA is attached hereto as Appendix 1. .

IV. ACCOUNTING PROCEDURES

Laclede Gas Company shall maintain adequate books and records with respect to the transactions described in this CAM and in the SFA to record the costs to be apportioned to the other Parties. Laclede Gas Company shall be responsible for ensuring that the costs associated with transactions covered by this CAM are properly and consistently allocated and billed in accordance with the terms and provisions of the SFA.

During the term of the SFA and for any period thereafter required by law, Laclede Gas Company shall maintain, and provide the Commission Staff and the Office of the Public Counsel with reasonable access to, any and all books, documents, papers and records of Laclede Gas Company which pertain to services and facilities provided to or received by Laclede Gas Company. Laclede Gas Company shall conduct audits of this CAM and the SFA on a periodic basis. Computer systems, billings and source documentation will be examined to ensure the services, facilities or other activities provided are authorized, documented and accurately recorded.

V. SERVICES, FACILITIES AND ACTIVITIES

Each company will determine the appropriate level of services, facilities or other activities it requires and will make such requests as it deems appropriate.

A. Facilities. Upon the terms and subject to the conditions of the CAM and SFA, a Party may request, without limitation, the use of:

(a) facilities, including office space, warehouse and storage space, natural gas transportation and storage facilities, including third party facilities reserved for Laclede's use pursuant to contract, repair facilities, manufacturing and production facilities, fixtures and office furniture and equipment;

(b) computer equipment (both stand-alone and mainframe) and networks, peripheral devices, storage media, and software;

(c) communications equipment, including audio and video equipment, radio equipment, telecommunications equipment and networks, and transmission and switching capability;

(d) vehicles, including automobiles, trucks, vans, trailers, transport equipment, material handling equipment and construction equipment; and

(e) machinery, equipment, tools, parts and supplies.

A Party shall have no obligation to provide any of the foregoing to the extent that such item or items are not available (either because such Party does not possess the item or the item is otherwise being used). A Party has sole discretion in scheduling the use of facilities, equipment or capabilities so as to avoid interference with that Party's operations.

B. Services. Upon the terms and subject to the conditions of the CAM and the SFA, a Party may request, without limitation:

(a) Administrative and management services, including accounting (i.e., bookkeeping, billing, accounts receivable administration and accounts payable administration, and financial reporting); audit; executive; finance; insurance; information systems services; investment advisory services; legal; library; record keeping; secretarial

and other general office support; real estate management; security holder services; tax; treasury; and other administrative and management services;

(b) Personnel services, including recruiting; training and evaluation services; payroll processing; employee benefits administration and processing; labor negotiations and management; and related services;

(c) Purchasing services, including preparation and analysis of product specifications, requests for proposals and similar solicitations; vendor and vendor-product evaluations; purchase order processing; receipt, handling, warehousing and disbursement of purchased items; contract negotiation and administration; inventory management and disbursement; and similar services; and

(d) Operational services, including drafting and technical specification development and evaluation; consulting; engineering; environmental; construction; design; resource planning; economic and strategic analysis; research; testing; training; public and governmental relations; and other operational services.

A Party shall have no obligation to provide any of the foregoing to the extent that it is not capable of providing such service (either because such Party does not have personnel capable of providing the requested service or the service is otherwise being used). A Party has sole discretion in scheduling of services so as to avoid interference with the Party's operations.

C. Joint Purchasing. A party may also request that another Party or Parties enter into arrangements to effect the joint purchase of goods or services from third parties. Under the SFA, Laclede Gas will only participate in such arrangements if its fully distributed cost for such goods or services is not thereby increased.

No Party shall be required to purchase a service that it is otherwise capable of providing or obtaining. In the event that any such arrangements are established, one Party may be designated as, or serve as, agent for the other Parties to the arrangement and may administer the arrangement (including billing and collecting amounts due the vendor(s)) for the other Parties.

D. Cash Management. The Parties may enter into one or more arrangements providing for the central collection, management, investment and disbursement of cash by a Party. If such an arrangement is established, then pursuant to the SFA:

(a) the Parties participating in such arrangement shall establish appropriate inter-company accounts to track the amount of cash transferred and/or received by each Party to such arrangement and the pro rata portion of the earnings received or interest paid by each such party from the investment or borrowing of cash; and

(b) the Party responsible under the arrangement for the management and investment of such cash shall establish a separate account or accounts for such purpose, which account(s) and the records associated therewith shall clearly indicate that other Parties have an interest in said account(s) and the proceeds thereof and shall not be subject to set-off by the bank or other institution holding the same except to the limited extent of expenses arising from the management, handling and investment of the account(s).

E. Agreements, Etc. A Party may evidence their agreement with respect to the availability, provision or use of the facilities, services and activities described in this CAM by entering into an agreement, lease, license or other written memorandum or evidence consistent with the terms of the SFA.

VI. ASSET TRANSFERS

Any asset transfers with Laclede Gas shall follow and comply with controlling law and regulation.

VII. CHARGES; PAYMENT

A. Charges. Charges for the use of facilities, equipment, capabilities or services shall be determined in accordance with the section below regarding cost principles. By requesting the use of facilities, equipment, capabilities and/or services, a Party shall be deemed to have agreed to pay, and shall pay, to the Provider or Providers the charge determined therefor in accordance with the CAM and the SFA.

B. Payment. Payment for the facilities, services and other activities shall be accounted for on a monthly basis and shall accrue interest if not made by the last day of the month following the month in which the service was rendered. Late payments shall bear interest at a rate per annum equal to the rate of interest announced from time to time by [set proxy rate] and such interest shall be based on the period of time that the payment is late.

VIII. TRANSFER PRICING/COSTING METHODOLOGY

A. Use of Facilities or Services. (i) Facilities or services provided to Laclede Gas Company by an affiliated Provider shall be charged at the lesser of the fair market price for such facilities or services or the fully distributed cost to Laclede Gas Company to provide the goods or services for itself.

(ii) Facilities or services provided by Laclede Gas Company to an affiliate shall be charged by Laclede Gas Company at the tariffed rate or, if no such tariffed rate exists, the fully distributed cost incurred by Laclede Gas Company in providing such facility or service, unless an alternative method for determining such charges is provided by law.

B. Fair Market Price. The fair market price of an asset or service as used in subsection A (i) means: (1) the prevailing price for which the same or similar facilities, services or goods are offered for sale by the affiliate or, if no such prevailing price exists, (2) the price at which nonaffiliated vendors offer the same or similar facilities, services or goods for sale determined by reference to quoted market prices, independent appraisals, benchmarking studies or other objectively determinable evidence.

C. Fully Distributed Costs. The fully distributed cost of an asset or service as used in subsections A (i) and (ii), means: (1) Laclede Gas Company's cost of labor, materials and services that can be directly attributed and charged to the asset or service; and (2) an allocated

share of Laclede Gas Company's indirect joint or common labor and administrative and general costs. The fully distributed cost of an asset or service shall be identified and charged or allocated to the asset or service in accordance with these general principles, as more fully outlined below:

(i) *Direct Costs.* Costs incurred that are specifically attributable to an asset or service shall be directly charged to that asset or service.

(ii) *Direct Labor.* Amounts of direct labor used in providing or attributable to a service shall be based on actual direct labor rates. All direct labor charges apportioned to a service shall be increased by a loading factor to reflect, if applicable, the payroll taxes; medical, dental and vision insurance costs; pension and other post-retirement health care benefits costs; incentive compensation plan costs; and employee savings plans' costs associated with such direct labor. These loading factor shall be determined periodically. For most employees, direct labor shall be charged under a positive time reporting methodology under which an employee shall report each pay period the number of hours incurred in performing the service. Based on the time reported each pay period, the regular, predetermined account distribution for the employee shall be adjusted to reflect the distribution of direct labor charges to the service.

Some departments or organizations are expected to provide a recurring, predictable level of services to a Party or Parties. For these departments or organizations, periodic reviews shall be performed to determine a normal distribution of time to such services. The distribution percentages derived from such reviews shall then be used to allocate time with respect to each pay period. For these departments or organizations, direct labor shall be charged to the service under an exception time reporting methodology. That is, significant deviations of actual activity from these predetermined percentages shall be reported and shall result in adjustments to the predetermined distribution of direct labor charges to the affiliate functions. Officers of Laclede

Gas Company shall also utilize either a positive time or an exception time reporting methodology.

Overtime shall be reflected in the direct labor rates charged to a service. Direct labor shall be charged based either on the base and overtime pay amounts actually incurred by Laclede Gas Company or, as adjusted on a departmental or organizational basis, to reflect estimated overtime incurred based on an overtime review performed periodically.

All charges for direct labor charges shall reflect a cost for nonproductive time. The cost for nonproductive time shall be based either on actual nonproductive time incurred by Laclede Gas Company, or as adjusted on a departmental or organizational basis, to reflect estimated nonproductive time derived from a periodic review. The cost for nonproductive time reflects time incurred for vacations, holidays, and other paid absences.

(iii) Direct Materials and Purchased Services. Amounts incurred for materials or purchased services directly attributable to a service provided to a Party shall be charged directly to the appropriate Party using standard voucher account distribution procedures.

(iv) Indirect and Allocated Costs. Costs apportioned to a service shall include, where applicable, an allocated share of the Company's indirect and otherwise allocated costs, including administrative and general costs and a share of the cost of facilities, equipment, machinery, furniture or fixtures used to provide the service. Such costs shall be proportionate and based on appropriate cost causative measures.

IX. DISPUTE RESOLUTION

If there is a dispute between Laclede Gas Company and any affiliate regarding a billing, representatives of all involved parties will meet to resolve the issues. Managers and other

executives of the affected parties may also be consulted. In the event that a resolution cannot be reached, the issue will be referred to senior management for final resolution.

X. EXCEPTIONS TO APPLICATION OF METHODOLOGIES

The methodologies set forth in this CAM provide general guidelines to govern how Laclede Gas Company will allocate costs to or pay for services received from or provided to affiliates. Such guidelines shall not be applicable in the event another methodology is prescribed by law for allocating costs to or pricing such services. Laclede Gas Company may also employ a different allocation or pricing methodology than those described herein in the event it determines that application to the methodologies or costing principles described herein would not be in the best interests of its utility customers, provided that Laclede Gas Company shall maintain information sufficient to show how costs would have been allocated to such services pursuant to the methodologies set forth in this CAM, and provided further that such alternative methodology will be subject to review and adjustment in any subsequent rate case proceeding.

Submitted,

The Laclede Group, Inc.
Laclede Gas Company
Laclede Investment Corporation
Laclede Development Company
Laclede Pipeline Company
Laclede Energy Resources, Inc.
Laclede Venture Corp.
Laclede Gas Family Services, Inc.

SERVICES AND FACILITIES AGREEMENT

Dated as of _____, 2001

Among

**The Laclede Group, Inc.
Laclede Gas Company
Laclede Investment Corporation
Laclede Development Company
Laclede Pipeline Company
Laclede Energy Resources, Inc.
Laclede Venture Corp.
Laclede Gas Family Services, Inc.**

720 Olive Street - St. Louis, MO 63101

SERVICES AND FACILITIES AGREEMENT

THIS SERVICES AND FACILITIES AGREEMENT (this "Agreement") is made and entered into as of the ___ day of _____ 2001, among The Laclede Group, Inc., Laclede Gas Company, Laclede Investment Corporation, Laclede Development Company, Laclede Pipeline Company, Laclede Energy Resources, Inc., Laclede Venture Corp., Laclede Gas Family Services, Inc., and each of the entities identified on Exhibit A hereto, as such Exhibit A may be amended from time to time in accordance with the provisions of this Agreement.

WITNESSETH:

WHEREAS, the parties are related by virtue of common ownership, directly or indirectly, of their equity securities by The Laclede Group, Inc.; and

WHEREAS, the parties believe that the central management of certain services and the provisions to each other of certain services and facilities are or may be efficient and cost effective, and the parties desire to make provision for these and other transactions as between Laclede Gas Company and another Laclede Group Entity or Entities;

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants contained herein, the parties hereby agree as follows:

ARTICLE I

Definitions and Interpretation

Section 1.1. *Definitions.* As used in this Agreement, the following terms shall have the respective meanings set forth below unless the context otherwise requires:

"*Commission*" means the Missouri Public Service Commission.

"*Cost Allocation Manual*" or "*CAM*" means the then effective version of the Laclede Gas Company Cost Allocation Manual.

"*Laclede Group Entity*" means The Laclede Group, Inc. and any of the entities identified on Exhibit A.

"*Party*" means each, and "*Parties*" means all, of the entities who are from time to time a party to this Agreement.

"*Provider*" means a Party who has been requested to, and who is able and willing to, furnish facilities, provide services or have other transactions with a Requestor under the terms of this Agreement.

"Requestor" means a Party who desires to use facilities, receive services or have other transactions with a Party and has requested another Party to furnish such facilities, provide such services or transactions.

Section 1.2. *Purpose and Intent; Interpretation.* (a) The purposes and intent of this Agreement are to set forth procedures and policies to govern (i) transactions between a Laclede Group Entity and Laclede Gas Company, whether such transactions occur directly or indirectly as the end result of a series of related transactions and (ii) the allocation of certain joint service costs. It is not intended to govern transactions between Laclede Group Entities that do not involve Laclede Gas Company, although such entities may elect to apply the provisions of this Agreement to transactions among themselves. This Agreement shall be interpreted in accordance with such purposes and intent.

(b) The headings of Articles and Sections contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement.

ARTICLE II

Use of Facilities and Services

Section 2.1. *Facilities.* Upon the terms and subject to the conditions of this Agreement, a Requestor may request a Provider or Providers to make available or provide facilities and equipment as described in the CAM. A Provider shall have no obligation to provide any facilities to the extent that such item or items are not available (either because such Provider does not possess the item or the item is otherwise being used); and it is understood that a Provider has sole discretion in scheduling the use by a Requestor of facilities, equipment or capabilities so as to avoid interference with such Provider's operations.

Section 2.2. *Services.* Upon the terms and subject to the conditions of this Agreement, a Requestor may request a Provider or Providers to provide services as described in the CAM. A Provider shall have no obligation to provide any service to the extent that it is not capable of providing such service (either because such Provider does not have personnel capable of providing the requested service or the service is otherwise being used); and it is understood that a Provider has sole discretion in scheduling the use by a Requestor of services so as to avoid interference with such Provider's operations.

Section 2.3. *Joint Purchasing.* A Party may also request that another Party or Parties enter into arrangements to effect the joint purchase of goods or services from third parties. Under the SFA, Laclede Gas will only participate in such arrangements if its fully distributed cost for such goods or services is not thereby increased.

Section 2.4. *Cash Management.* The Parties may enter into one or more arrangements providing for the central collection, management, investment and disbursement of cash by a Party. If such an arrangement is established, then such procedures as are set forth in the CAM will apply.

Section 2.5. *Agreements, Etc.* A Party may evidence their agreement with respect to the availability, provision or use of the facilities, services and activities by entering into an agreement, lease, license or other written memorandum or evidence consistent with the terms of this SFA.

ARTICLE III

Charges; Payment

Section 3.1. *Charges.* (a) Charges for the use of facilities, equipment, capabilities or services provided to or by Laclede Gas Company shall be determined as set forth in the CAM.

Section 3.2. *Accounting.* Each Party shall maintain adequate books and records with respect to the transactions subject to this Agreement and shall be responsible for maintaining internal controls where applicable to ensure the costs associated with such transactions are properly and consistently determined and billed in accordance with the terms and provisions of this Agreement and the CAM.

Section 3.3. *Payment.* Payment for the facilities, services and other activities shall be on a monthly basis and shall be made in accordance with the procedures set forth in the CAM.

ARTICLE IV

Cost Apportionment Methodology

The cost allocation and pricing principles and methods specified in the then effective CAM shall be used to price and allocate costs relating to services provided to or by Laclede Gas Company under this Agreement.

ARTICLE V

Limitations of Liability

Section 5.1. *No Warranties for Facilities or Services.* Each Party acknowledges and agrees that any facilities, equipment or capabilities made available, and any services provided, by a Provider to a Requestor hereunder, are so made available or provided WITHOUT ANY WARRANTY (WHETHER EXPRESS, IMPLIED OR STATUTORY AND NOTWITHSTANDING ANY ORAL OR WRITTEN STATEMENT BY A PARTY'S EMPLOYEES, REPRESENTATIVES OR AGENTS TO THE CONTRARY) WHATSOEVER. ALL SUCH WARRANTIES (INCLUDING, WITHOUT LIMITATION, THE WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE) ARE HEREBY DISCLAIMED AND EXCLUDED.

Section 5.2. *No Partnership.* The Parties acknowledge and agree that this Agreement does not create a partnership between, or a joint venture of, a Party and any other

Party. Each Party is an independent contractor and nothing contained in this Agreement shall be construed to constitute any Party as the agent of any other Party except as expressly set forth in Sections 2.3 and 2.4.

Section 5.3. *No Third Party Beneficiaries.* This Agreement is intended for the exclusive benefit of the Parties hereto and is not intended, and shall not be deemed or construed, to create any rights in, or responsibilities or obligations to, third parties.

ARTICLE VI

Term

Section 6.1. *Term.* This Agreement will be effective on the date it is signed and shall continue, unless terminated as provided in Section 6.2 or renewed as hereinafter provided, until the tenth anniversary of such date (the "Initial Term"). Unless written notice that this Agreement shall terminate on the last day of the Initial Term or any then current renewal term is provided by a Party at least 30 days prior to the expiration of the Initial Term or such renewal term, this Agreement shall continue for successive renewal terms of five years as to such Party and any other Parties not providing any such termination notice.

Section 6.2. *Termination.* Any Party may terminate this Agreement as to it by providing at least 30 days prior written notice to the other Parties of the effective date of such termination. Any such termination shall not affect the terminating Party's accrued rights and obligations under this Agreement arising prior to the effective date of termination or its obligations under Section 8.4.

ARTICLE VII

Confidential Information

Each Party shall treat in confidence all information which it shall have obtained regarding the other Parties and their respective businesses during the course of the performance of this Agreement. Such information shall not be communicated to any person other than the Parties to this Agreement, except to the extent disclosure of such information is required by a governmental authority. If a Party is required to disclose confidential information to a governmental authority, such Party shall take reasonable steps to make such disclosure confidential under the rules of such governmental authority. Information provided hereunder shall remain the sole property of the Party providing such information. The obligation of a Party to treat such information in confidence shall not apply to any information which (i) is or becomes available to such Party from a source other than the Party providing such information, or (ii) is or becomes available to the public other than as a result of disclosure by such Party or its agents.

ARTICLE VIII

Miscellaneous

Section 8.1. *Entire Agreement; Amendments.* Upon its effectiveness as provided in Section 6.1, this Agreement shall constitute the sole and entire agreement among the Parties with respect to the subject matter hereof and shall supersede all previous agreements, proposals, oral or written, negotiations, representations, commitments and all other communications between some or all of the Parties. Except as provided in Section 8.2 with respect to new Parties and except that Laclede Group may amend Exhibit A to this Agreement to delete any terminated Party, this Agreement shall not be amended, modified or supplemented except by a written instrument signed by an authorized representative of each of the Parties hereto.

Section 8.2. *New Parties.* Any other entity which is or may become an affiliate of The Laclede Group or any of the other Parties to this Agreement may become a party to this Agreement by executing an agreement adopting all of the terms and conditions of this Agreement. Such agreement must be signed by The Laclede Group in order to become effective, but need not be signed by any other Party to this Agreement. Upon such execution by The Laclede Group, such entity shall be deemed to be a Party and shall be included within the definition of "Party" for all purposes hereof, and Exhibit A shall be amended to add such entity.

Section 8.3. *Assignment.* This Agreement may not be assigned by any party without the prior written consent of The Laclede Group.

Section 8.4. *Access to Records.* During the term of this Agreement and for any period thereafter required by law, Laclede Gas Company shall maintain and provide reasonable access to any and all books, documents, papers and records of Laclede Gas Company which pertain to services and facilities provided to or received by Laclede Gas Company.

Section 8.5. *Partial Invalidity.* Wherever possible, each provision hereof shall be interpreted in such manner as to be effective and valid under applicable law, but in case any one or more of the provisions contained herein shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such provision shall be ineffective to the extent, but only to the extent, of such invalidity, illegality or unenforceability without invalidating the remainder of such invalid, illegal or unenforceable provision or provisions or any other provisions hereof, unless such a construction would be unreasonable.

Section 8.6. *Waiver.* Failure by any Party to insist upon strict performance of any term or condition herein shall not be deemed a waiver of any rights or remedies that such Party may have against any other Party nor in any way to affect the validity of this Agreement or any part hereof or the right of such Party thereafter to enforce each and every such provision. No waiver of any breach of this Agreement shall be held to constitute a waiver of any other or subsequent breach.

Section 8.7. *Governing Law.* This Agreement shall be governed by, construed and interpreted pursuant to, the laws of the State of Missouri.

IN WITNESS WHEREOF, the Parties have each caused this Agreement to be executed by a duly authorized representative as of the day and year first above written.

The Laclede Group, Inc.

Laclede Venture Company

Laclede Gas Company

Laclede Gas Family Services, Inc.

Laclede Investment Company

Laclede Pipeline Company

Laclede Development Company

Laclede Energy Resources, Inc.

EXHIBIT A

The Laclede Group, Inc.
Laclede Gas Company
Laclede Investment Corporation
Laclede Development Company
Laclede Pipeline Company
Laclede Energy Resources, Inc.
Laclede Venture Corp.
Laclede Gas Family Services, Inc.

MAY 18 2001

Exhibit No.:
Issue: Application Recommendation
Witness: STEPHEN M. RACKERS
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: GM-2001-342
Date Prepared: May 17, 2001

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

STEPHEN M. RACKERS

LACLEDE GAS COMPANY

CASE NO. GM-2001-342

Jefferson City, Missouri
May 2001

Schedule PAK-2

Rebuttal Testimony of
Stephen M. Rackers

1 A. My rebuttal testimony will respond to the direct testimonies of Laclede
2 Gas Company (Laclede or Company) witnesses Gerald T. McNeive and Patricia A.
3 Krieger. My rebuttal testimony will also explain part of the Staff's recommendation
4 regarding the Reorganization Application of Laclede (Application) docketed in Case No.
5 GM-2001-342. Specifically, my rebuttal testimony will address a portion of the Staff's
6 concerns and recommended conditions relating to the areas of Commission authority and
7 jurisdiction, access to records, accounting procedures and reporting requirements.

8 Q. What is the Staff's recommendation with regard to the Application?

9 A. The Staff recommends conditional approval of the Application. The
10 Staff's proposed conditions, regarding the areas addressed in my testimony, are attached
11 as Schedules 2 and 3, which are incorporated herein by reference. The Staff's
12 recommended financial conditions are provided in the testimony of Staff witness
13 Ronald L. Bible of the Financial Analysis Department.

14 Q. Why does the Staff believe its proposed conditions are necessary for
15 approval of the Application?

16 A. The Staff believes that its proposed conditions must accompany approval
17 of the Application to provide the safeguards necessary to ensure that the restructuring of
18 Laclede is not detrimental to the public interest.

19 Q. Please explain the proposed conditions that appear in Schedules 2 and 3.

20 A. Items 1 through 4 of Schedule 2 address the concern that approval of the
21 Application may change and/or limit the Commission's authority and ability to regulate
22 Laclede after the reorganization takes place. Item 1 of Schedule 2 and Schedule 3 in its
23 entirety deal with the Staff's concern with the potential preemption of the Commission's
24 authority by the decisions of the Securities and Exchange Commission (SEC) and the

Rebuttal Testimony of
Stephen M. Rackers

1 Federal Energy Regulatory Commission (FERC). Items 2 through 4 of Schedule 2 deal
2 with the Staff's concerns with the disposition of utility assets; transfer of employees; and,
3 access to the books, records and personnel of Laclede after the reorganization

4 Item 5 of Schedule 2 requires Laclede to maintain and annually submit a Cost
5 Allocation Manual (CAM), which provides information concerning the affiliated and/or
6 non-regulated transactions engaged in by the Company. The CAM also identifies the
7 policies and procedures that are to be followed in developing this information. This
8 requirement will allow the Commission the opportunity to examine the number, amount
9 and type of affiliated transactions engaged in by the Company on an annual basis. This
10 condition is necessary to ensure that Laclede maintains the proper records to allow parties
11 to verify that consumers are not being harmed by the affiliate transactions that will take
12 place as a result of this restructuring. In the Southwestern Bell Telephone Company
13 complaint case, No. TC-93-224, the Commission recognized the difficulty created by
14 affiliated transactions without adequate record keeping.

15 Item 6 of Schedule 2 requires the Company to identify the jurisdictions in which it
16 files affiliated transaction information. This condition is designed to provide access to
17 additional information to supplement the Commission's surveillance of Laclede's
18 affiliated transactions at minimal cost to the Company.

19 Item 7 of Schedule 2 requires the Company to identify, describe and provide an
20 accounting of all the costs associated with the reorganization of Laclede. This
21 identification will facilitate the future regulatory disposition of these costs. These costs
22 are not required for safe and adequate service and are also non-recurring. Therefore, it is
23 important that Laclede have adequate records to allow parties the opportunity to remove
24 these costs from future rates.

Rebuttal Testimony of
Stephen M. Rackers

1 Item 8 of Schedule 2 requires the Company to provide an explanation in the event
2 any final accounting entries associated with the reorganization deviate more than 10%
3 from the pro forma entries that appear in Exhibit 4 to the Application. This requirement
4 is designed to ensure that Laclede has provided meaningful and accurate information to
5 the Commission regarding the financial impact of the corporate reorganization requested
6 in this case.

7 Q. Has the Staff previously proposed all of these conditions with regard to
8 any previous application for reorganization?

9 A. Yes. These or similar conditions were utilized by the Staff in the current
10 Kansas City Power & Light Company Case No. EM-2001-464, its application for
11 corporate reorganization. The Staff has designed its proposed conditions in this case
12 using the same underlying concepts.

13 In addition, many of the conditions used by the Staff in this case were also
14 approved by the Commission in Union Electric Company's Case No. EM-96-149,
15 regarding its merger with Central Illinois Public Service Company.

16 Q. Do you agree with the statements of Company witness McNeive, on
17 page 8 of his direct testimony, that the reorganization of Laclede will in no way diminish
18 the Commission's jurisdiction?

19 A. No. Without proper safeguards being imposed, the potential for limitation
20 of the Commission's jurisdiction and authority exists, due to potential preemption of the
21 Commission's current regulatory powers by federal regulatory agencies. The Staff's
22 conditions address the potential opportunity for Laclede or its affiliates to seek to
23 overturn Commission actions on the basis that the subject of the Commission action
24 resulted from filings with or approvals from the SEC or the FERC.

1 Organizational separation of Laclede's current regulatory operations will also
2 hinder the Commission's discovery powers regarding information related to activities
3 engaged in with affiliates. For example, after the reorganization, Laclede may seek to
4 object to certain discovery on the basis that particular records and employees are no
5 longer under the control of the Company.

6 Q. Do you agree with Mr. McNeive's statements on page 8 and 9 of his direct
7 testimony, that there will be no transfer of utility assets and no significant transfer of
8 employees to the holding company or any affiliate as a result of the reorganization?

9 A. The Staff believes these statements will be correct at the date of the
10 reorganization. However, these statements may not hold true in the future. The Staff's
11 conditions address this situation in the proposed requirements for Laclede to seek
12 Commission approval for future asset transfers and notification of future decisions to
13 transfer employees.

14 Q. On page 9 of his direct testimony, Mr. McNeive states that there will be no
15 dilution of talent and diversion of management attention from the provision of regulated
16 service as a result of the reorganization. Does the Staff have concerns in this area?

17 A. Yes. As Mr. McNeive discusses on page 7 of his direct testimony, one of
18 the reasons for the reorganization is to allow the unregulated subsidiaries additional
19 flexibility to pursue business opportunities. Since employees of Laclede currently
20 provide services to both regulated and unregulated operations, future growth in
21 unregulated operations will likely require additional manpower and management
22 attention as the Corporation group assumes more risky endeavors. This shift in focus
23 toward unregulated operations has the potential to be detrimental to the regulated
24 operations.

Rebuttal Testimony of
Stephen M. Rackers

1 Q. Does the Staff believe the CAM discussed in and attached to the testimony
2 of Company witness Krieger should be modified?

3 A. Yes. The CAM should be modified as a condition for approval of the
4 Application. These modifications appear in sections 5.a through 5.i of Schedule 2 to my
5 rebuttal testimony. As previously discussed, these conditions are necessary to ensure that
6 Laclede maintains proper records to allow for verification that customers are not being
7 harmed by the affiliated transactions that will occur as a result of this restructuring.

8 Q. Does this conclude your rebuttal testimony?

9 A. Yes, it does.

RATE PROCEEDING PARTICIPATION

STEPHEN M. RACKERS

<u>Company</u>	<u>Case Number</u>
Bowling Green Gas Company	GR-78-218
Central Telephone Company	TR-78-258
Empire District Electric Company	ER-79-19
Fidelity Telephone Company	TR-80-269
St. Louis County Water Company	WR-80-314
Union Electric Company	ER-81-180
Laclede Gas Company	GR-81-245
Great River Gas Company	GR-81-353
Union Electric Company	ER-82-52
Laclede Gas Company	GR-82-200
St. Louis County Water Company	WR-82-249
Union Electric Company	ER-83-163
Union Electric Company	ER-84-168
Arkansas Power and Light Company	ER-85-20
Kansas City Power and Light Company	ER-85-128
Arkansas Power and Light Company	ER-85-265
Union Electric Company	EC-87-114
Union Electric Company	GR-87-62
Southwestern Bell Telephone Company	TC-89-14
St. Louis County Water Company	WR-89-246
Laclede Gas Company	GR-90-120
Missouri Cities Water Company	WR-91-172
St. Louis County Water Company	WR-91-361
Laclede Gas Company	GR-92-165
Missouri Pipeline Company	GR-92-314
St. Louis County Water Company	WR-92-204

<u>Company</u>	<u>Case Number</u>
St. Louis County Water Company	WR-94-166
St. Louis County Water Company	WR-95-145
Union Electric Company	ER-95-411
St. Louis County Water Company	WR-96-263
St. Louis County Water Company	WR-97-382
Laclede Gas Company	GR-99-315
Missouri-American Water Company	WR-2000-281 et al
St. Louis County Water Company	WR-2000-844

**THE STAFF'S PROPOSED CONDITIONS FOR APPROVAL OF LACLEDE GAS
COMPANY'S APPLICATION FOR REORGANIZATION**

CASE NO. GM-2001-342

1. The Commission's current jurisdiction over the Company's operations stays intact.
 - a. The Commission may make its determination regarding the ratemaking treatment to be accorded the creation of a service company, if formed, in a subsequent ratemaking proceeding. Laclede Gas Company will provide the Staff and Public Counsel with copies of all documents that must be filed with the SEC and FERC relating to the creation of a service company.
 - b. Laclede Gas Company, its affiliates, the holding company and any service company, if formed, will not seek to preempt any action of the Commission on the basis that the subject of the Commission action was itself filed with or approved by the SEC, or resulted from an arrangement between Laclede Gas Company and any of its affiliates that was filed with or approved by the SEC.
 - c. In the event that a court with jurisdiction over Laclede Gas Company, its affiliates, the holding company and any service company, if formed, issues an opinion or order invalidating any action of the Commission on the basis that the subject of the Commission action was itself filed with or approved by the SEC, or resulted from an arrangement between Laclede Gas Company and any of its affiliates that was filed with or approved by the SEC, the procedure described in Schedule 3 will apply, at the option of the Commission.
 - d. Laclede Gas Company, its affiliates, the holding company and any service company, if formed, will not seek to preempt any action of the Commission on the basis that the subject of the Commission action was itself filed with or approved by the FERC, or resulted from an arrangement between Laclede Gas Company and any of its affiliates that was filed with or approved by the FERC.
 - e. In the event that a court with jurisdiction over Laclede Gas Company, its affiliates, the holding company and any service company, if formed, issues an opinion or order invalidating any action of the Commission on the basis that the subject of the Commission action was itself filed with or approved by the FERC, or resulted from an arrangement between Laclede Gas Company and any of its affiliates that was filed with or approved by the FERC, the procedure described in Schedule 3 will apply, at the option of the Commission.
 - f. The Holding Company will not, directly or indirectly, acquire or merge with, or allow itself to be acquired by or merged with a public utility or the affiliate of a public utility, where the affiliate has a controlling interest in a public utility, without prior approval from the Commission and a finding that the transaction will not be detrimental to the public.
 - g. Laclede Gas Company will provide to the Commission and Public Counsel with copies of all documents that must be file with the SEC and FERC relating to affiliated transactions. The Commission may make its determination regarding the ratemaking treatment to be accorded these transactions in a subsequent ratemaking proceeding.
2. There will be no sale, lease, assignment or transfer of utility assets by Laclede Gas Company to its affiliates, the holding company or any service company, if formed, without Commission approval.

3. Laclede Gas Company will provide notification to the Staff and Public Counsel in the event it makes the decision to transfer any job positions, departments and/or functions to an affiliate, the holding company, any service company, if formed, another corporation or business entity.
4. The books, records and personnel of Laclede Gas Company, the holding company, affiliates and any service company, if formed, will be made available to the Staff and OPC at reasonable times and places, as provided under law and Commission rules.
 - a. Laclede Gas Company, the holding company, affiliates and any service company, if formed, will not object on the basis that the production of records or personnel is not subject to Commission authority and jurisdiction or are not in the control or custody of Laclede Gas Company.
 - b. Laclede Gas Company, each affiliate and the holding company will maintain records supporting its affiliated transactions for at least five years.
5. A Cost Allocation Manual will include and provide in an annual submittal to the Staff and Public Counsel:
 - a. For all Laclede Gas Company functions that will provide support to nonregulated affiliates and the holding company:
 - (1) A list and description of each function.
 - (2) The positions and numbers of employees providing each function.
 - (3) The procedures used to measure and assign costs to nonregulated affiliates and the holding company for each function.
 - b. A list and description of each service and good that will be provided to Laclede Gas Company from each affiliate and the holding company.
 - c. A list and description of each service and good that will be provided by Laclede Gas Company to each affiliate and the holding company.
 - d. The dollar amount of each service and good charged to each affiliate and the holding company by Laclede Gas Company, and the total cost related to each service and good listed.
 - e. The dollar amount of each service and good purchased from each affiliate and the holding company by Laclede Gas Company, and the total cost related to each service and good listed.
 - f. A detailed discussion of the basis for determining the charges from Laclede Gas Company, each affiliate and the holding company, including:
 - (1) If costs are allocated, a detailed description of the allocation process employed for each service and good.
 - (2) Detailed descriptions of how direct, indirect and common activities are assigned for each service and good.
 - (3) A detailed description of how market values are determined for each service and good.

- (4) A detailed discussion of the criteria used to determine whether volume discounts and other pricing considerations are provided to Laclede Gas Company, affiliates and the holding company.
 - g. For each nonregulated activity that will be engaged in by Laclede Gas Company with non-affiliated third party customers following formation of a holding company:
 - (1) A list and description of each nonregulated activity.
 - (2) The total amount of revenues and expenses for each nonregulated activity for the last calendar year.
 - (3) A listing of all Laclede Gas Company cost centers and/or functions that directly assign cost, indirectly assign cost and/or allocate cost to each nonregulated activity engaged in by Laclede Gas Company with non-affiliates.
 - h. A Code of Conduct to ensure adherence to its policies and practices.
 - (1) Training will be provided and information disseminated regarding the Company's current policies and procedures and any future modifications.
 - (2) The Company will enforce penalties, including possible termination, for non-compliance with its policies and procedures.
 - (3) A designated person will be responsible for enforcement of the policies and procedures.
 - (4) Laclede Gas Company will conduct regularly scheduled internal and/or external audits to examine compliance with its policies and procedures.
 - (5) At least once a year Laclede Gas Company will consider whether modifications to the Code of Conduct are necessary to support appropriate compliance with its policies and procedures. Any modifications made will be provided as part of the annual CAM filing.
 - i. Organization charts for the holding company (corporate structure), Laclede Gas Company and any affiliate doing business with Laclede Gas Company.
6. Laclede Gas Company will provide a list of all jurisdictions in which Laclede Gas Company, the holding company, affiliates and service company, if formed, file affiliate transaction information.
7. Laclede Gas Company will not seek to recover any costs related to the restructuring from ratepayers. These costs will be identified, described and accounted for in a manner that will enable the Staff to seek disallowance from rates, if necessary, in a future proceeding.
8. Laclede Gas Company will provide the Staff and Public Counsel with an explanation for any final reorganization journal entry that deviates by more than 10% from the estimated proforma entries provided in Exhibit 4 of the Application. Copies of the actual journal entries will be provided to the General Counsel's Office no later than thirty days following the preparation of the final merger closing entries.

**OPTIONAL PROCEDURE REGARDING COURT DECISIONS
LACLEDE GAS COMPANY'S APPLICATION FOR REORGANIZATION**

CASE NO. GM-2001-342

1.0 APPLICABILITY

- 1.1 Principles stated in this Procedure (Procedure) shall govern the situations described in Sections 1.c and 1.e of Schedule 2, The Staff's Proposed Conditions For Approval.
- 1.2 Changes to this Procedure may be proposed from time-to-time by Laclede Gas Company (Laclede) or The Laclede Group, Inc. (TLG), the Commission Staff or the Office of the Public Counsel ("OPC" or "Public Counsel"), subject to the approval of the Commission; provided, however, that Laclede, the Commission Staff and the OPC shall meet and discuss any such proposed changes prior to the submission of such changes to the Commission by Laclede or TLG, the Commission Staff or the OPC.

2.0 DEFINITIONS

When used in this Procedure the following terms shall have the respective meanings set forth below:

- 2.1 "Affiliate" means an entity that is TLG, a subsidiary of Laclede, a subsidiary of TLG (other than Laclede), or other subsidiary within the Holding Company organization.
- 2.2 "Affiliate Contract" means an Affiliate Operating Contract, an Affiliate Sales Contract, an Affiliate Surety Contract, a Section 205 Contract, a Service Agreement, or an amendment to any such contract.
- 2.3 "Affiliate Operating Contract" means a contract, other than a Section 205 Contract, between Laclede and one or more of its Affiliates providing for the operation of any part of Laclede's generating, transmission and/or distribution facilities by such Affiliate(s).
- 2.4 "Affiliate Sales Contract" means a contract, other than an Affiliate Operating Contract or a Section 205 Contract, between Laclede and one or more of its Affiliates involving the purchase of Assets, Goods or Services.
- 2.5 "Affiliate Surety Contract" means a contract between Laclede and one or more of its Affiliates involving the assumption by Laclede of any liability as a guarantor, endorser, surety, or otherwise in respect of any security or contract of an Affiliate.

- 2.6 "Assets" means any land, plant, equipment, franchises, licenses, or other right to use assets.
- 2.7 "Commission" means the Missouri Public Service Commission or any successor governmental agency.
- 2.8 "Commission Staff" or "Staff" means the Staff of the Missouri Public Service Commission.
- 2.9 "Entity" means a corporation or a natural person.
- 2.10 "FERC" means the Federal Energy Regulatory Commission, or any successor governmental commission.
- 2.11 "Goods" means any goods, inventory, materials, supplies, appliances, or similar property (except electric energy and capacity).
- 2.12 "Non-Utility Affiliate" means an Affiliate which is neither a public utility nor a Utility Service Company.
- 2.13 "OPC" or "Public Counsel" means the Office of the Public Counsel.
- 2.14 "Review Period" means a period of ninety (90) consecutive calendar days commencing on the first day immediately following the date that Laclede or TLG submits an Affiliate Contract to the Commission for the Commission Staff's review. Any part of the Review Period for a particular Affiliate Contract may be waived by agreement of Laclede, the Commission Staff and the OPC.
- 2.15 "SEC" means the United States Securities and Exchange Commission, or any successor governmental agency.
- 2.16 "Section 205 Contract" means an interconnection, interexchange, pooling, operating, transmission, power sale or ancillary power services contract or similar contract entered into between Laclede and an Affiliate and subject to regulation by the FERC pursuant to § 205 of the Federal Power Act, 15 U.S.C. § 824d, or any successor statute.
- 2.17 "Service Agreement" means the agreement entered into between Laclede, TLG, and an affiliated or subsidiary service company, under which services are provided by such services company to Laclede and TLG.
- 2.18 "Services" means the performance of activities having value to one party, such as managerial, financial, accounting, legal, engineering, construction, purchasing, marketing, auditing, statistical, advertising, publicity, tax, research, and other similar services.

- 2.19 "Subsidiary" means any corporation 10 percent (10%) or more of whose voting capital stock is controlled by another Entity; Subsidiaries of TLG are those corporations in which TLG owns directly or indirectly (or in combination with TLG's other Affiliates) 10 percent (10%) or more of such corporation's voting capital stock.
- 2.20 "Laclede's Holding Company" means TLG or its successor in interest.
- 2.21 "Utility Affiliate" means an Affiliate of Laclede which is also a public utility.
- 2.22 "Utility Service Company" means an Affiliate whose primary business purpose is to provide administrative and general or operating services to Laclede and Utility Affiliate(s).

3.0 **AFFILIATE CONTRACTS REQUIRED TO BE FILED WITH THE SEC**

The following will apply to Affiliate Contracts that are required to be filed with the SEC.

- 3.1 Prior to filing any such Affiliate Contract with the SEC or the Commission, Laclede will submit to the Commission Staff, the OPC, and the appropriate parties requesting a copy, a copy of the Affiliate Contract which it proposes to file with the SEC and the Commission.
- 3.1.1 If the Commission Staff clears the contract for filing, or does not object to it, and no objections from affected parties are submitted to Laclede (with a copy to the Commission Staff) during the Review Period for such contract, Laclede may file such contract with the SEC and the Commission. The contract will become effective upon the receipt of all necessary regulatory authorizations and will continue in effect until it is terminated pursuant to its terms or is amended or superseded, subject to the receipt of all necessary regulatory authorizations.
- 3.1.2 If, during the expiration of the Review Period for such contract, the Commission Staff recommends that the Commission reject, disapprove or establish a proceeding to review such contract, or if an objection(s) is submitted to Laclede (with a copy to the Commission Staff) by an affected party (or parties), Laclede may file the contract with the Commission, but shall not file the contract with the SEC until at least thirty (30) days after the date that it is filed with the Commission; provided, that both such filings shall disclose the Commission Staff's recommendation or the objection(s) regarding the contract; provided, further, that if the Commission, within twenty (20) days after the contract is filed, institutes a proceeding to review such contract, Laclede shall not file the contract with the SEC unless and until Laclede receives a Commission Order which resolves issues raised with regard to the contract and which does not reject or disapprove the contract. The contract will become effective upon the

receipt of all necessary regulatory authorizations and will continue in effect until it is terminated pursuant to its terms or is amended or superseded, subject to the receipt of all necessary authorizations.

3.2 After the Affiliate Contract has been filed with the Commission, the Commission may in accordance with Missouri law, reject or disapprove the contract, and upon such rejection or disapproval:

3.2.1 If such contract has not yet been accepted or approved by the SEC, Laclede will, as soon as possible, file to seek to withdraw its filing requesting SEC acceptance or approval of such contract; or

3.2.2 If such contract has been accepted or approved by the SEC and none of the other contracting parties are Utility Affiliates subject to any other state utility regulatory commission's jurisdiction, Laclede will:

a. terminate such contract according to its terms; or

b. at its sole option, take such steps as are necessary to cause such contract to be amended in order to remedy the Commission's adverse findings with respect to such contract; Laclede will refile such amended contract with both the Commission and the SEC; such amendment will become effective only upon the receipt of all necessary regulatory authorizations, and the previous contract (to the extent already in effect) will remain in effect until such authorizations are received; if the SEC does not finally accept or approve such amendment within one (1) year from the date of Laclede's filing of such amendment with the SEC, Laclede will, upon request of the Commission, terminate the contract according to its terms.

3.2.3 If such contract has been accepted or approved by the SEC, and one or more of the other contracting parties are Utility Affiliates subject to another state utility regulatory commission's jurisdiction, Laclede will make a good faith effort to terminate, amend or modify such contract in a manner which remedies the Commission's adverse findings with respect to such contract. Laclede will request to meet with representatives from the affected state commissions and make a good faith attempt to resolve any differences in their respective interests regarding the subject contract. If agreement can be reached to terminate, amend, or modify the contract in a manner satisfactory to the contracting parties and the representatives of each state commission, Laclede shall file such amended contract with the Commission and the SEC under the procedures set forth in this Section 3. If no agreement can be reached satisfactory to each contracting party and to each affected state commission, after good faith negotiations, Laclede has no further obligations under this Procedure. Nothing herein affects,

modifies or alters in any way the rights and duties of the Commission under applicable state and federal law.

4.0 **AFFILIATE CONTRACTS REQUIRED TO BE FILED WITH THE FERC**

The following will apply to Affiliate Contracts that are required to be filed with the FERC.

- 4.1 Prior to filing any Affiliate Contract with the FERC or the Commission, Laclede will submit to the Commission Staff, the OPC and appropriate parties requesting a copy, a copy of the Affiliate Contract which it proposes to file with the FERC and the Commission.
 - 4.1.1 If the Commission Staff clears the contract for filing, or does not object thereto, and no objections from affected parties are submitted to Laclede, (with a copy to the Commission Staff) during the Review Period for such contract, Laclede may file such contract with the FERC and the Commission. The contract will become effective upon the receipt of all necessary regulatory authorizations and will continue in effect until it is terminated pursuant to its terms or is amended or superseded, subject to the receipt of all necessary regulatory authorizations.
 - 4.1.2 If, during or upon the expiration of the Review Period for such contract, the Commission Staff recommends that the Commission reject, disapprove or establish a proceeding to review such contract, or if any objection(s) is submitted to Laclede (with a copy to the Commission Staff) by an affected party (or parties), Laclede may file the contract with the Commission, but shall not file the contract with the FERC until at least thirty (30) days after the date that it is filed with the Commission; provided, that if the Commission, within twenty (20) days after the contract is filed, institutes a proceeding to review such contract, Laclede shall not file the contract with the FERC unless and until Laclede receives a Commission Order which resolves issues raised with regard to the contract and which does not reject or disapprove the contract. The contract will become effective upon the receipt of all necessary regulatory authorizations and will continue in effect until it is terminated pursuant to its terms or is amended or superseded, subject to the receipt of all necessary regulatory authorizations.
- 4.2 After the Affiliate Contract has been filed with the Commission, the Commission may in accordance with Missouri law, reject or disapprove the contract, and upon such rejection or disapproval:
 - 4.2.1 If such contract has not yet been accepted or approved by the FERC, Laclede will, as soon as possible, file to seek to withdraw its filing requesting the FERC acceptance or approval of such contract; or

- 4.2.2 If such contract has been accepted or approved by the FERC and none of the other contracting parties are Utility Affiliates subject to any other state utility regulatory commission's jurisdiction, Laclede will:
- a. terminate such contract according to its terms; or
 - b. at its sole option, take such steps as are necessary to cause such contract to be amended in order to remedy the Commission's adverse findings with respect to such contract; Laclede will refile such amended contract with the Commission and the FERC; such amendment will become effective only upon the receipt of all necessary regulatory authorizations, and the previous contract (to the extent already in effect) will continue in effect until such authorizations are received; if the FERC does not finally accept or approve such amendment within one (1) year from the date of Laclede's filing of such amendment with the FERC, Laclede will, upon request of the Commission, terminate the contract according to its terms.
- 4.2.3 If such contract has been accepted or approved by the FERC and one or more of the other contracting parties are Utility Affiliates subject to another state utility regulatory commission's jurisdiction, Laclede will make a good faith effort to terminate, amend or modify such contract in a manner which remedies the Commission's adverse findings with respect to such contract. Laclede will request to meet with representatives from the affected state commissions and make a good faith attempt to resolve any differences in their respective interests regarding the subject contract. If agreement can be reached to terminate, amend, or modify the contract in a manner satisfactory to the contracting parties and the representatives of each state commission, Laclede shall file such amended contract with the Commission and the FERC under the procedure set forth in this Section 4. If no agreement can be reached satisfactory to each contracting party and each affected state commission, after good faith negotiations, Laclede has no further obligations under this Procedure. Nothing herein affects, modifies or alters in any way the rights and duties of the Commission under applicable state and federal law.

JUL 11 2001

FILED³

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Missouri Public Service Commission

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

In the Matter of the Application of Laclede)
Gas Company for an Order Authorizing)
Its Plan to Restructure Itself Into a Holding)
Company, Regulated Utility Company, and)
Unregulated Subsidiaries)

Case No. GM-2001-342

UNANIMOUS STIPULATION AND AGREEMENT

COME NOW Laclede Gas Company ("Laclede" or "Company"), the Staff of the Missouri Public Service Commission ("Staff"), the Office of the Public Counsel ("Public Counsel") the Paper, Allied-Industrial, Chemical, and Energy Workers Local Nos. 5-6 and 5-194, AFL-CIO (collectively known as "PACE"), and Barnes-Jewish Hospital, DaimlerChrysler Corporation, The Doe Run Company, Emerson Electric Company, Lone Star Industries, Inc., River Cement Company, SSM HealthCare, and Unity Health System (collectively known as the "Missouri Energy Group"), and represent to the Missouri Public Service Commission ("Commission") that they have reached a Unanimous Stipulation and Agreement (hereinafter "Stipulation") or otherwise resolved all of their differences in the above-captioned case. For their Stipulation, each of the parties identified above, with the exception of the Missouri Energy Group (hereinafter "the Parties") state as follows:¹

¹ The Missouri Energy Group are signing this Stipulation solely for purposes of indicating to the Commission that they neither support nor oppose the Stipulation and that such Stipulation may therefore be treated as Unanimous pursuant to the Commission's Rules of Practice and Procedure.

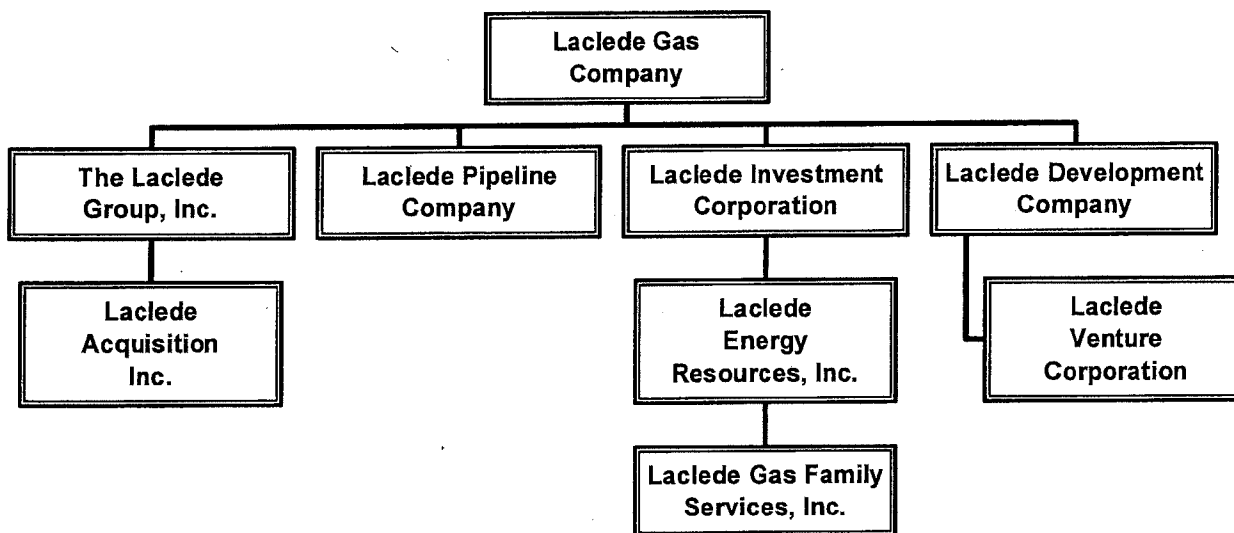
Schedule PAK-3

SECTION I
BACKGROUND

1. On December 1, 2000, Laclede filed a Verified Application with the Commission in which it requested that the Commission issue an Order authorizing the Company to restructure itself into a holding company, regulated utility company and unregulated subsidiaries (hereinafter "the Proposed Restructuring").

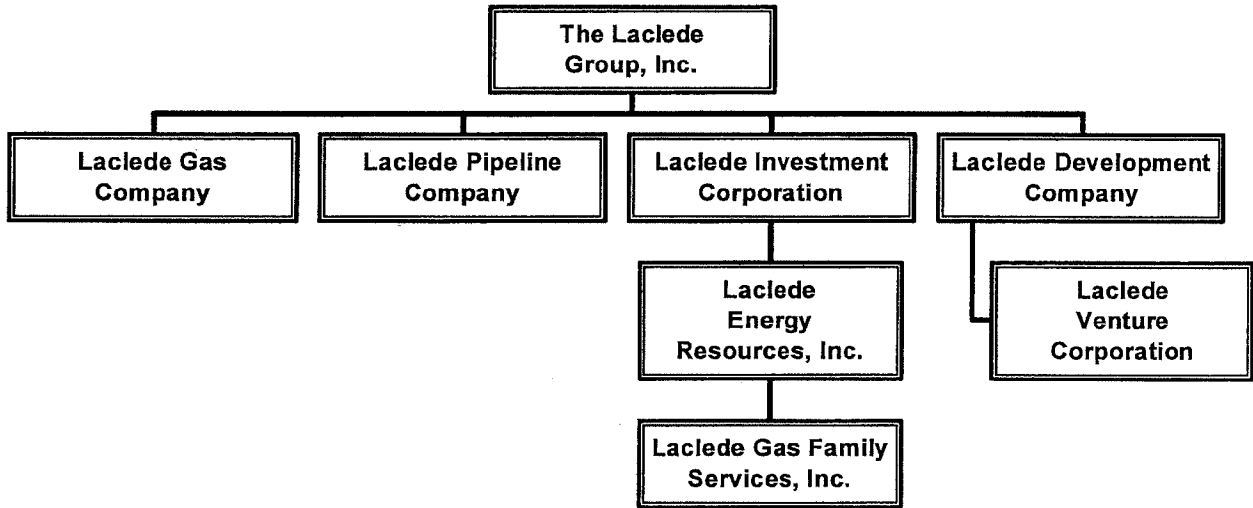
2. As described in that Verified Application, under its present corporate structure, Laclede Gas Company is the parent corporation of a number of unregulated subsidiaries, including Laclede Development Company, which has its own subsidiary Laclede Venture Corp.; Laclede Investment Corporation, which has two subsidiaries, Laclede Energy Resources, Inc. and Laclede Gas Family Services, Inc.; and Laclede Pipeline Company. Laclede has also created two other subsidiaries, The Laclede Group, Inc., and its subsidiary, Laclede Acquisition Inc., to facilitate the Proposed Restructuring. The organization chart presented below shows Laclede's present corporate structure:

Present Corporate Structure



3. Upon completion of the Proposed Restructuring, The Laclede Group, Inc. would become the parent holding company. Laclede Gas Company and the remaining unregulated subsidiaries would, in turn, become separate and independent subsidiaries of The Laclede Group, Inc. This Proposed Restructuring would be accomplished pursuant to a procedure commonly known as a “Reverse Triangular Merger.” Under that procedure, Laclede Acquisition Inc. would be merged into Laclede Gas Company. Upon completion of the merger, Laclede Acquisition Inc. would no longer exist. The Laclede Group, Inc. would then hold all of the common stock of Laclede Gas Company as well as the other subsidiaries. The Organizational Chart presented below depicts this structure that would be in place following the Proposed Restructuring.

Proposed Corporate Structure



4. As discussed in the Verified Application, the Proposed Restructuring does not involve the transfer of any utility assets currently owned by Laclede Gas Company or any change in the terms and conditions of the regulated utility services provided by Laclede.

5. On December 29, 2000, and February 27, 2001, applications to intervene in this proceeding were filed by PACE and the Missouri Energy Group, respectively. Both applications to intervene were subsequently granted by the Commission.

6. On January 5, 2001, the Commission issued notice of Laclede's Application and established a deadline for parties wishing to intervene in this proceeding. By subsequent Order dated February 13, 2001, the Commission scheduled a prehearing conference for the purpose of permitting the parties to engage in settlement discussions and, if necessary, to develop a procedural schedule for addressing any remaining, unresolved issues. The prehearing conference was subsequently held on March 13, 2001.

7. As a result of their discussion both during and following the prehearing conference in this case, the Parties have agreed to a resolution of all of the issues in this case, and hereby stipulate and agree as follows:

SECTION II
APPROVAL OF PROPOSED RESTRUCTURING

1. The Parties (except PACE) recommend that the Commission grant the relief requested by the Company in its Verified Application. Specifically, the Parties (except PACE) recommend that the Commission issue an Order, as soon as practicable, authorizing the Company to restructure itself into a holding company, regulated utility company and unregulated subsidiaries, as more fully described in the Company's Verified Application, and to perform and complete any transactions required to effectuate the Proposed Restructuring.

2. The Parties further recommend that such approval be conditioned on the agreements, understandings and requirements set forth in Sections III, IV, V, VI and VII of this Stipulation and Agreement. Provided such approval is so conditioned, PACE does

not object to the Commission granting the relief requested by the Company in its Verified Application.

SECTION III
FINANCIAL CONDITIONS

1. The Laclede Group, Inc. represents that it does not intend to take any action that has a material possibility of having a detrimental effect on Laclede Gas Company's utility customers, but agrees that, should such detrimental effects nevertheless occur, nothing in the approval or implementation of the Proposed Restructuring shall impair the Commission's ability to protect such customers from such detrimental effects.

2. Laclede Group, Inc. will not pledge Laclede Gas Company's common stock as collateral or security for the debt of the Holding Company or a Subsidiary without Commission approval.

3. Laclede Gas Company will not guarantee the notes, debentures, debt obligations or other securities of the Holding Company or any of its subsidiaries, or enter into any "make-well" agreements without prior Commission approval.

4. The Laclede Group, Inc. agrees to maintain consolidated equity of no less than 30 percent of its total permanent consolidated capitalization and Laclede Gas Company agrees to maintain its equity at no less than 35% of its total capitalization, unless they are unable to do so due to events or circumstances beyond their control, including, but not limited to, acts of God, war, insurrection, strikes, civil unrest, material changes in market conditions that could not have been reasonably anticipated, or changes in the application, character or impact of laws, taxing requirements, regulations, or regulatory practices and standards governing the Company's regulated operations. Total capitalization is defined as common equity, preferred stock, long-term debt, and short-

term debt, excluding short-term debt supporting natural gas and propane inventories, purchased gas costs and cash working capital. Common equity is defined as par value of common stock, plus additional paid in capital, plus retained earnings, minus treasury stock. The Laclede Group, Inc. and Laclede Gas Company agree to notify the Staff and Public Counsel in the event they become aware of any material possibility that either or both companies will be unable to maintain their respective equity ratios. In the event either Company's equity ratio should fall below these specified levels, Laclede Gas Company shall file a plan with the Commission within 90 days of such occurrence proposing alternatives for raising the ratios to or above the levels specified herein.

5. Laclede Gas Company shall submit quarterly to the Staff's Financial Analysis Department and Public Counsel certain key financial ratios that will be calculated, to the extent practical, consistent with the methodology employed by Standard and Poor's Credit Rating Service. These key financial ratios shall include:

- (a) Pre-tax interest coverage;
- (b) After-tax coverage of interest and preferred dividends;
- (c) Funds flow interest coverage;
- (d) Funds from operations to total debt;
- (e) Total debt to total capital (including preferred); and
- (f) Total common equity to total capital.

6. Laclede Gas Company's total long-term instruments payable at periods of more than twelve months shall not exceed Laclede Gas Company's regulated rate base.

7. Laclede Gas Company agrees to maintain its debt and, if outstanding, its preferred stock rating at an investment grade credit rating, unless it is unable to do so due

to events or circumstances beyond its control, including, but not limited to, acts of God, war, insurrection, strikes, civil unrest, material changes in market conditions that could not have been reasonably anticipated, or changes in the application, character or impact of laws, taxing requirements, regulations, or regulatory practices and standards governing the Company's regulated operations. Laclede Gas Company agrees to notify the Staff and Public Counsel in the event it becomes aware of any material possibility that it will not be able to maintain such a credit rating with any established agency that typically rates Laclede's debt. In the event Laclede Gas Company's credit rating should fall below investment grade, Laclede shall file a plan with the Commission within 90 days of such occurrence proposing alternatives for raising its credit rating above investment grade.

8. The Laclede Group, Inc and Laclede Gas Company agree that the Commission has, and will continue to have, the authority after the Proposed Restructuring to regulate, through the lawful exercise of its current statutory powers, any direct or indirect transfer or disbursement of earnings from Laclede Gas Company to an affiliate that would jeopardize the Company's ability to meet its utility obligations. The Laclede Group, Inc, and Laclede Gas Company also agree that the Commission has the authority, through the lawful exercise of its ratemaking powers, to ensure that the rates charged by Laclede Gas Company for regulated utility service are not increased as a result of the unregulated activities of Laclede's affiliates and Laclede agrees, consistent with such standard, that rates should not be increased due to such activities.

SECTION IV **ACCESS TO INFORMATION CONDITIONS**

1. The Laclede Group, Inc. and Laclede Gas Company shall provide the Staff and Public Counsel with access, upon reasonable written notice during normal working

hours and subject to appropriate confidentiality and discovery procedures, to all written information provided to common stock, bond, or bond rating analysts, which directly or indirectly pertains to Laclede Gas Company or any affiliate that exercises influence or control over Laclede Gas Company or has affiliate transactions with Laclede Gas Company. Such information includes, but is not limited to, reports provided to, and presentations made to, common stock analysts and bond rating analysts. For purposes of this condition, "written" information includes but is not limited to, any written and printed material, audio and videotapes, computer disks, and electronically stored information. Nothing in this condition shall be deemed to be a waiver of The Laclede Group, Inc.'s or Laclede Gas Company's right to seek protection of the information or to object, for purposes of submitting such information as evidence in any evidentiary proceeding, to the relevancy or use of such information by any party.

2. Upon request, Laclede Gas Company and The Laclede Group, Inc. agree to make available to Staff, Public Counsel and PACE, upon written notice during normal working hours and subject to appropriate confidentiality and discovery procedures, all books, records and employees of The Laclede Group, Inc., Laclede Gas Company and its affiliates as may be reasonably required to verify compliance with the CAM and the conditions set forth in this Stipulation and Agreement and, in the case of PACE, to ensure that it continues to have the same degree and kind of access to information relevant to the investigation and processing of grievances and the enforcement of collective bargaining agreements, whether from affiliates or otherwise, as it currently has under Laclede's existing corporate structure. In addition to following standard discovery procedures, Staff's and Public Counsel's access to bargaining unit employees shall also be conditioned

on Staff and Public Counsel providing reasonable notice to the employee's Union of their intent to seek such access and the right of such employee to be represented by the Union. Laclede Gas Company and The Laclede Group, Inc. shall also provide Staff and Public Counsel any other such information (including access to employees) relevant to the Commission's ratemaking, financing, safety, quality of service and other regulatory authority over Laclede Gas Company; provided that Laclede Gas Company and any affiliate or subsidiary of The Laclede Group, Inc. shall have the right to object to such production of records or personnel on any basis under applicable law and Commission rules, excluding any objection that such records and personnel of affiliates or subsidiaries: (a) are not within the possession or control of Laclede Gas Company; or (b) are either not relevant or are not subject to the Commission's jurisdiction and statutory authority by virtue of or as a result of the implementation of the Proposed Restructuring.

3. Laclede Gas Company, each affiliate and The Laclede Group, Inc. will maintain records supporting its affiliated transactions for at least five years.

SECTION V
COMMISSION AUTHORIZATION CONDITIONS

1. The Laclede Group, Inc. agrees that it will not, directly or indirectly, acquire or merge with or allow itself to be acquired by or merged with, a public utility or the affiliate of a public utility, where the affiliate has a controlling interest in a public utility, or seek to become a registered holding company, or take any action which has a material possibility of making it a registered holding company or of subjecting all or a portion of its Missouri intrastate gas distribution operations to FERC jurisdiction, without first requesting and, if considered by the Commission, obtaining prior approval from the Commission and a finding that the transaction is not detrimental to the public, provided

that for purposes of acquisitions by the Holding Company only, public utility shall mean a natural gas or electric public utility.

2. Laclede Gas Company shall not sell, lease, assign or transfer to any affiliate or third party any of its utility assets that are used and useful in the performance of Laclede's public utility obligations without obtaining Commission approval.

SECTION VI
COST ALLOCATION MANUAL CONDITIONS

1. Upon implementation of the Proposed Restructuring, transactions involving transfers of goods or services between Laclede Gas Company and one or more of the Company's affiliated entities shall be conducted and accounted for in compliance with the provisions of a Cost Allocation Manual ("CAM") which shall be submitted to Staff, Public Counsel and PACE on or before April 15, 2003, and on an annual basis thereafter. The CAM shall be in the form contained in the direct testimony of Patricia A. Krieger, provided that the CAM, and the information that the Company is required to maintain and submit thereunder, shall be revised and supplemented within 120 days of the approval of this Stipulation and Agreement to include any and all of the following information as required to administer, audit and verify the Transfer Pricing and Costing Methodologies set forth in Section VIII of the CAM or such other Transfer Pricing and Costing Methodologies as may become applicable to the Company in the future:

- (a) For all Laclede Gas Company functions that will provide support to nonregulated affiliates and the holding company:
 - (1) A list and description of each function;
 - (2) The positions and numbers of employees providing each function;and

- (3) The procedures used to measure and assign costs to nonregulated affiliates and the holding company for each function.
- (b) A list and description of each service and good that will be provided to Laclede Gas Company from each affiliate and the holding company.
- (c) A list and description of each service and good that will be provided by Laclede Gas Company to each affiliate and the holding company.
- (d) The dollar amount of each service and good charged to each affiliate and the holding company by Laclede Gas Company, and the total cost related to each service and good listed.
- (e) The dollar amount of each service and good purchased from each affiliate and the holding company by Laclede Gas Company, and the total cost related to each service and good listed.
- (f) A detailed discussion of the basis for determining the charges from Laclede Gas Company and each affiliate and the holding company, including:
 - (1) If costs are allocated, a detailed description of the allocation process employed for each service and good;
 - (2) Detailed descriptions of how direct, indirect and common activities are assigned for each service and good;
 - (3) A detailed description of how market values are determined for each service and good; and

- (4) A detailed discussion of the criteria used to determine whether volume discounts and other pricing considerations are provided to Laclede Gas Company, affiliates, and the holding company.

(g) For each line of business that will be engaged in by Laclede Gas Company with non-affiliated third party customers following formation of a holding company and that would not reasonably be considered as a component of its regulated utility business, Laclede shall provide:

- (1) A list and description of each nonregulated activity;
- (2) The total amount of revenues and expenses for each nonregulated activity for the last calendar year; and
- (3) A listing of all Laclede Gas Company cost centers and/or functions that directly assign cost, indirectly assign cost and/or allocate cost to each nonregulated activity engaged in by Laclede Gas Company with non-affiliates.

2. Laclede agrees to make compliance with the procedures and requirements set forth in the CAM and the other terms of this Stipulation and Agreement a standard element of its Code of Conduct and to provide employee training and oversight in a manner that is reasonably designed to achieve such compliance. Laclede will conduct regularly scheduled audits to confirm compliance with its CAM and will annually review and update the CAM where necessary and submit such updates with its next CAM filing. Laclede will identify a function or position with responsibility for enforcing and updating the CAM.

3. As part of its CAM submittal, Laclede Gas Company will provide a list of all jurisdictions in which Laclede Gas Company, the holding company, affiliates, and service company, if formed, file affiliate transaction information.

4. As part of its CAM submittal, Laclede Gas Company will also provide Organizational Charts for The Laclede Group, Inc. (corporate structure), Laclede Gas Company and any other affiliate doing business with Laclede Gas Company and a copy of the annual holding company filing the Laclede Group, Inc. is required to file with the Securities and Exchange Commission.

SECTION VII **MISCELLANEOUS CONDITIONS**

1. Laclede Gas Company will not seek to recover any costs related to the Proposed Restructuring from ratepayers. These costs will be identified, described and accounted for in a manner that would enable the Staff and Public Counsel to seek disallowance from rates, if necessary, in a future proceeding.

2. Laclede Gas Company will provide the Staff and Public Counsel with an explanation for any final reorganization journal entry that deviates by more than ten percent (10%) from the estimated proforma entries provided in Exhibit 4 of the Application. Copies of the actual journal entries will be provided to the General Counsel's Office no later than thirty days following the preparation of the final merger closing entries.

3. The Laclede Group and its affiliates (including Laclede) will provide the following documents to Staff and Public Counsel on an annual basis:

- (a) All new, revised and updated business plans for The Laclede Group and its affiliates (including Laclede);

- (b) Descriptions of any and all joint marketing/promotional campaigns between Laclede and The Laclede Group and any of its affiliates;
- (c) Narrative description of all products and services offered by The Laclede Group and its affiliates (including Laclede), provided that Laclede shall not be required to provide narrative descriptions of its tariffed products and services;
- (d) All information provided under this subsection shall be considered “highly confidential” or “proprietary” as those terms are used in 4 CSR 240-2.085, and shall be treated as highly confidential or proprietary information by the Staff and Public Counsel;
- (e) The Laclede Group, Inc. and its affiliates (including Laclede) shall also notify Staff, Public Counsel and PACE in the event and at such time as they commence a line of business that neither Laclede nor its affiliates were actively engaged in at the time of the Proposed Restructuring. Such notification can take the form of public announcements, press releases or other means of notification provided to the parties.

4. Laclede Gas agrees to notify the Staff, Public Counsel, and PACE in the event and at such time as any decision is made to transfer any department or function relating to the Company’s provision of regulated utility services from the regulated gas corporation to a non-regulated affiliated entity or other third party; provided that nothing herein shall be construed as limiting or modifying in any manner any notice or other requirement Laclede may have relating to the transfer of bargaining unit employees or the work performed by such employees pursuant to the existing collective bargaining unit

agreements between Laclede and Pace or applicable federal labor law. At the time of its annual CAM filing, Laclede will also provide Public Counsel, Staff and PACE information detailing the name, job description, and transfer dates of any employees that were permanently or temporarily transferred between Laclede and any affiliate during the preceding fiscal year.

5. Nothing in this Stipulation and Agreement shall be deemed to change in any way any of the rights and obligations of Laclede Gas Company or PACE under the collective bargaining agreements between them or under any non-PSC law, and by entering into this Stipulation and Agreement, neither Laclede Gas Company or PACE waives any such rights.

6. Nothing in this Stipulation and Agreement or the implementation of the Proposed Restructuring shall affect in any way the scope of any existing ratemaking authority the Commission has over Laclede Gas Company relating to activities undertaken by Laclede Energy Resources or Laclede Pipeline Company prior to implementation of the Proposed Restructuring or over ratemaking issues that may arise as the result of the formation of a service company.

SECTION VIII **STANDARD PROVISIONS**

1. This Stipulation represents a negotiated settlement for the purpose of disposing of all of the identified issues in this case. None of the Parties to the Stipulation shall have been deemed to have approved or acquiesced in any ratemaking, procedural or legal principle, any method of cost determination or cost allocation, or any service or payment standard, and none of the Parties shall be prejudiced or bound in any manner by

the terms of this Stipulation in any other proceeding, except as otherwise expressly specified herein.

2. In the event the Commission approves this Stipulation and Agreement, all of the prefiled testimony submitted by the Parties in this proceeding may be received into evidence, and the Parties waive their respective rights to cross-examination, to submit oral argument or briefs, and their rights to judicial review of such determination.

3. The Staff shall file suggestions or a memorandum in support of this Stipulation and Agreement and the other parties shall have the right to file responsive suggestions. All memoranda submitted by the Parties shall be considered privileged in the same manner as are settlement discussions under the Commission's rules; shall be maintained on a confidential basis by all Parties; and shall not become a part of the record of this proceeding or bind or prejudice the Party submitting such memorandum in any future proceeding or in this proceeding, whether or not the Commission approves this Stipulation. The contents of any memorandum provided by any Party are its own and are not acquiesced in or otherwise adopted by the other signatories to this Stipulation, whether or not the Commission approves and adopts this Stipulation.

4. The Staff shall have the right to provide, at any agenda meeting at which this Stipulation is noticed to be considered by the Commission, whatever oral explanation the Commission requests; provided that the Staff shall, to the extent reasonably practicable, promptly provide other Parties with advance notice of when the Staff shall respond to the Commission's request for such explanation once such explanation is requested from the Staff. Staff's oral explanation shall be subject to public disclosure,

except to the extent it refers to matters that are privileged or protected from disclosure pursuant to any protective order in this case.

5. The agreements contained in this Stipulation have resulted from extensive negotiations among the Parties and are interdependent. In the event the Commission does not approve or adopt the provisions of this Stipulation in total, then this Stipulation shall be void and no signatory shall be bound by any agreements or provisions hereof.

6. To assist the Commission in its review and consideration of this Stipulation, the Parties also request that the Commission advise them of any additional information that the Commission may desire from the Parties relating to the matters addressed in this Stipulation, including any procedures for furnishing such information to the Commission.

WHEREFORE, the signatories hereto respectfully request that the Commission approve this Unanimous Stipulation and Agreement as expeditiously as possible.

Respectfully submitted,

Michael C. Pendergast

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Assistant Vice President
Associate General Counsel
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CERTIFICATE OF SERVICE

Michael C. Pendergast, Assistant Vice-President, Associate General Counsel for Laclede Gas Company, hereby certifies that the foregoing Unanimous Stipulation and Agreement has been duly served upon all parties of record to this proceeding by placing a copy thereof in the United States mail, postage prepaid, or by hand delivery, on this 9th day of July 2001:

Douglas E. Micheel
Senior Public Counsel
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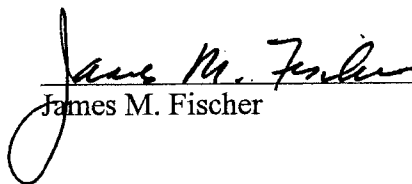
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Secretary/Chief Regulatory Law Judge
DANA K. JOYCE
General Counsel

July 17, 2001

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

FILED²

JUL 17 2001

Missouri Public
Service Commission

RE: Case No. GM-2001-342

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and eight (8) conformed copies of the **SUGGESTIONS IN SUPPORT OF UNANIMOUS STIPULATION AND AGREEMENT**.

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,

Cliff E. Snodgrass
Senior Counsel
(573) 751-3966
(573) 751-9285 (Fax)

CES:sw
Enclosure
cc: Counsel of Record

Schedule PAK-4

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED²

JUL 17 2001

Missouri Public
Service Commission

In the Matter of the Application of)
Laclede Gas Company for an Order)
Authorizing Its Plan to Restructure Itself)
Into a Holding Company, Regulated)
Utility Company, and Unregulated)
Subsidiaries)

Case No. GM-2001-342

SUGGESTIONS IN SUPPORT OF UNANIMOUS STIPULATION AND AGREEMENT

COMES NOW the Staff of the Missouri Public Service Commission (Staff), by and through one of its attorneys, and in support of the Unanimous Stipulation and Agreement filed in this case, states as follows:

1. Staff took the position that imposition of conditions or safeguards was necessary before this proposed transaction should be approved by the Commission (Commission). The Staff's primary effort in this case, in terms of safeguards, was devoted to ensuring against or minimizing any "detriment" to the ratepayers of the State of Missouri.

2. Through the process of negotiation Staff believes that it obtained enough safeguards memorialized in the Unanimous Stipulation and Agreement (Agreement) to warrant approval of the transaction sought by the Laclede Gas Company (Gas Company). This pleading will attempt to highlight several items in the Agreement that Staff respectfully believes warrant acceptance of the Agreement by the Commission.

FINANCIAL SAFEGUARDS

Some of the financial “insulating” conditions obtained by the Staff to protect the Missouri ratepayers included the following: A commitment from the proposed holding company, The Laclede Group, Inc. (Holding Company), not to pledge the Laclede Gas Company’s common stock as collateral or security for the debts of the holding company or a subsidiary of the holding company without Commission approval; an agreement by the Gas Company not to guarantee the notes, debentures, debt obligations or other securities of the Holding Company without Commission approval; a commitment from the Gas Company to maintain its equity at no less than 35% of its total capitalization unless unable to do so by circumstances beyond its control or changes in market conditions that could not have been reasonably anticipated; the Gas Company agreed to maintain its debt, and, if outstanding, its preferred stock rating at an investment grade credit rating unless events beyond the Company’s control occurred; the Gas Company also agreed that customer rates should not be increased due to the unregulated activities of the Company’s affiliates; lastly, to assist in monitoring corporate transactions in the event the restructuring is approved, access to the financial records of the Holding Company and the Gas Company related to information furnished to stock and bond rating analysts has been provided for along with access to records relating to corporate adherence to an appropriate Cost Allocation Manual (CAM).

Generally, the conditions summarized above comport with Staff witness Ron Bible’s testimony that insulating conditions are necessary in restructuring transactions to ensure that the business and financial risk of unregulated corporate activities are not transferred to the regulated utility. In addition, a credit rating agency such as Standard and Poors considers that an entity’s

credit worthiness reflects not only its own business and financial profile, but also its relationships with other corporate family members. Thus, financial safeguards are also essential in minimizing a diminution of credit worthiness of the regulated entity due to changes in corporate relationships. A reduction in credit worthiness increases the cost of borrowing money and these increased interest costs may be passed on to the ratepayers.

RESTRICTING LOSS OF COMMISSION JURISDICTION

Staff was concerned with potential loss of Commission jurisdiction if the proposed transaction was approved, specifically in connection with infusion of federal regulation through the Public Utility Company Holding Act (PUHCA). Therefore, a safeguard was negotiated that prohibits the Holding Company from seeking to become a registered holding company, or taking any action which has a material possibility of making it a registered holding company (subject to PUHCA), or subjecting any portion of its Missouri intrastate gas distribution operations to FERC jurisdiction without first obtaining Commission authorization.

COST ALLOCATION MANUAL

Staff witness Stephen Rackers filed testimony stating that a CAM should be maintained and submitted to ensure that ratepayers were not being harmed by any affiliate corporate transactions that might take place after the proposed restructuring. After extensive negotiation, substantially all of the CAM suggestions sought by Staff were accepted by the Gas Company. In addition, compliance with the CAM procedures was extended to all personnel of the Gas

Company and would be made a standard element of the Company's Code of Conduct applicable to employees. Staff had no general objection to the concessions to the union intervenors in this case. Staff's only concern was that all employees were required to comply with CAM procedures, regardless of their bargaining unit status.

MISCELLANEOUS PROVISIONS

The Gas Company agreed not to seek any recovery of any costs related to the restructuring from the ratepayers and these costs will be identified and accounted for in a manner that would enable the Staff to seek disallowance from rates, if necessary, in a future proceeding.

For monitoring purposes, the Holding Company agreed to provide the Staff with all new, revised and updated business plans for the Holding Company and its affiliates, and to provide the Staff with a description of all products and services offered by the Holding Company and its affiliates, with the exception of the regulated Gas Company.

In addition, the parties agreed that nothing in this Agreement or the implementation of the proposed restructuring, should affect the scope of any existing ratemaking authority the Commission has over the Gas Company relating to activities undertaken by Laclede Energy Resources or the Laclede Pipeline Company prior to implementation of the proposed restructuring or over ratemaking issues that may arise as the result of the formation of a service company.

For all of the foregoing reasons, the Staff believes the Stipulation and Agreement has adequately addressed the concerns of the Staff and is a document that offers protection to the ratepayers of Missouri. Staff thereby respectfully requests that the Commission approve the Unanimous Stipulation and Agreement filed in this case.

Respectfully submitted,

DANA K. JOYCE
General Counsel



Cliff Snodgrass
Senior Counsel
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Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 17th day of July, 2001.



**Service List for
Case No. GM-2001-342
Revised: July 17, 2001 (SW)**

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