Exhibit No.:	
Issue(s):	Weather Mitigation Clause/ Laclede Weather Rate Design Proposal
Witness/Type of Exhibit:	Kind/Surrebuttal
Sponsoring Party:	Public Counsel
Case No.:	GR-2002-356

SURREBUTTAL TESTIMONY

OF

RYAN KIND

Submitted on Behalf of
the Office of the Public Counsel

LACLEDE GAS COMPANY

Case No. GR-2002-356

August 23, 2001

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of Laclede Gas Company's tariff to revise natural gas rate schedules.	))	Case No. GR-2002-356

AFFIDAVIT OF RYAN KIND

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Ryan Kind, of lawful age and being first duly sworn, deposes and states:

1. My name is Ryan Kind. I am Chief Utility Economist for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony consisting of pages 1 through 26 and Attachments RK-1 through RK-4.

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

Ryan Kind

Ryan Kind

Subscribed and sworn to me this 23rd day of August 2002.

KATHLEEN HARRISON
Notary Public - State of Missouri
County of Cole
My Commission Expires Jan. 31, 2006

Kathleen Harris

Kathleen Harris
Notary Public

My commission expires January 31, 2006.

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SURREBUTTAL TESTIMONY

OF

RYAN KIND

LACLEDE GAS COMPANY

CASE NO. GR-2002-356

Q. Are you the same Ryan Kind that submitted rebuttal testimony in this case?

A. Yes, I am.

I. SUMMARY

Q. WHAT ISSUE WILL YOU BE ADDRESSING IN THIS TESTIMONY?

A. I will be addressing the new weather mitigation rate design proposal presented in the Rebuttal testimony of Laclede witnesses Michael Cline and Paul Raab.

Q. WHAT TOPICS RELATED TO THE NEW LACLEDE WEATHER MITIGATION PROPOSAL WILL YOU BE COVERING IN THIS TESTIMONY?

A. My testimony will cover the following topics:

- Explaining what is and is not known about the mechanics of the weather mitigation rate design proposal presented in the rebuttal testimonies of Laclede witnesses Michael Cline and Paul Raab.

- Analyzing the lopsided Laclede proposal in the broader context of the weather-related risks faced by both the Company and its customers.

- The likely and potential detriments associated with the new Laclede weather mitigation proposal.

Some of the above topics are also discussed in the surrebuttal testimony of OPC witness Hong Hu.

Q. PLEASE SUMMARIZE PUBLIC COUNSEL'S POSITION REGARDING LACLEDE'S NEW WEATHER MITIGATION PROPOSAL.

A. The surrebuttal testimony of Hong Hu and this testimony provide compelling evidence that while this new proposal would provide substantial benefits to the Laclede and its shareholders, it would be harmful to Laclede's customers. In the Kansas Gas Service (KGS) case cited by Mr. Raab in his rebuttal testimony, the Kansas Commission approved a WMC **pilot** program, based in part on KGS's explicit agreement that its decreased risk resulting from approval of a WMC should be taken into account when the Kansas Commission determines the appropriate ROE for KGS. However, Laclede has never acknowledged that this Commission should consider the impacts that a weather mitigation mechanism has on reducing its risk when ROE determinations are made, much less entered into a Stipulation and Agreement to that effect as was done by KGS. Therefore, Laclede has never offered a way for the Company's risk-reducing benefits to be shared with ratepayers in a way that might begin to counteract the ratepayer detriments and possibly allow this Commission to determine that such a proposal is in the public interest.

Q. WERE OTHER UNIQUE FACTORS, BESIDES THE KGS COMMITMENT TO CONSIDER REDUCED WEATHER RISK IN ROE DETERMINATIONS, PRESENT IN THE CASE WHERE THE KANSAS COMMISSION DECIDED TO APPROVE A WMC FOR KGS?

A. Yes.. The other unique factors included (1) the fact that KGS's WMC proposal was only to implement the WMC as a two year pilot program, and (2) the KGS agreement to extend its 3 year rate moratorium by 2 years, even though KGS alleged that it was under-earning by at least $36 million at the time.

Q. WHAT STANDARD SHOULD THE COMMISSION USE TO DETERMINE IF THE DETRIMENTS OF LACLEDE'S EXISTING RATE DESIGN, IF ANY, ARE SUFFICIENT TO JUSTIFY THE MAJOR CHANGES IN NON-GAS AND PGA RATE DESIGN BEING PROPOSED BY LACLEDE IN ITS LATEST WEATHER MITIGATION PROPOSAL?

A. Public Counsel believes that the Commission should not approve the new proposal unless it determines that the weather risk associated with the current non-gas (margin) rate design structure causes a documented substantial impairment to Laclede's ability to provide safe and adequate utility service.

Q. HAS LACLEDE PROVIDED COMPETENT AND SUBSTANTIAL EVIDENCE IN THIS CASE DEMONSTRATING THAT THE WEATHER RISK ASSOCIATED WITH THE CURRENT NON-GAS (MARGIN) RATE DESIGN STRUCTURE CAUSES SUBSTANTIAL IMPAIRMENT TO LACLEDE'S ABILITY TO PROVIDE SAFE AND ADEQUATE UTILITY SERVICE?

A. No. Laclede has merely provided unsubstantiated statements regarding increased difficulties it may have in continuing to provide adequate service due to its purportedly poor financial operating results.

Q. HAS THE COMMISSION ARTICULATED A STANDARD THAT IT WOULD USE TO DETERMINE WHETHER IT SHOULD ACT IN A PREEMTIVE MANNER TO ADDRES AN ALLEDGED PRESENT OR FUTURE DECLINE IN THE FINANCIAL STABILITY OF A UTILITY?

A. Yes. I believe that the Commission articulated a standard in the UtiliCorp United, Inc./St. Joseph Light & Power merger case (Case No. EM-2000-292). In that case, the Commission responded to Public Counsel's recommendation to deny the merger based on the likely decline in the financial ratings of St. Joseph Light and Power (SJLP) that was likely to occur after it was acquired by a company with a substantially poorer credit rating by determining that "Public Counsel's argument is not persuasive." The Commission determined that OPC's argument was not persuasive because the credit rating of the acquiring company, UtiliCorp, was "still considered to be commercial grade" even though it was lower than the credit rating of SJLP. The Commission also denied OPC's recommendation on the basis that "there is no evidence that UtiliCorp is financially unstable."

OPC respectfully requests that this Commission apply the same standards in this case that it believed were appropriate in the UtiliCorp/SJLP merger case. If the Commission was satisfied with UtiliCorp's ratings so long as they were "investment grade" and saw no reason to take extraordinary actions to protect SJLP's ratepayers from the risk of lower credit ratings, then OPC hopes it will be even-handed in its assessment of whether Laclede's assertions of possible ratings downgrades merit the extraordinary relief (the Laclede weather proposals) that Laclede is requesting in this case.

Furthermore, since the Commission believed that it needed evidence that UtiliCorp was "financially unstable" before finding that the merger should have been denied, OPC would like to see the Commission demand substantial evidence in this case that Laclede is financially unstable before granting Laclede the virtual insulation from weather risk and associated radical rate design changes that the Company is seeking in this case.

Q. DOES THE STAFF BELIEVE THAT LACLEDE WOULD BE IN DANGER OF BECOMING FINANCIALLY UNSTABLE IF THE COMMISSION DOES NOT APPROVE A PROPOSAL FOR REMOVING MOST OF THE COMPANY'S WEATHER RISK?

A. No. At lines 15 –17 on page 13 of his rebuttal testimony, Staff witness James Russo denies that "Laclede would be in dire financial straights without the implementation of the WMC." Mr. Russo goes on to state:

> The Company would lead the Commission to believe that it is not recovering its costs and is struggling to meet its everyday and Commission mandated obligations. The financial facts tell a different story…

II. OBJECTIVES OF THE NEW LACLEDE WEATHER MITIGATION PROPOSAL

Q. MR. CLINE INTRODUCES LACLEDE'S NEW WEATHER MITIGATION RATE DESIGN PROPOSAL IN HIS REBUTTAL TESTIMONY. DOES MR. CLINE IDENTIFY THE OBJECTIVES THAT LACLEDE SEEKS TO ACHIEVE BY IMPLEMENTING THIS PROPOSAL?

A. At line 9 on page one of his testimony, Mr. Cline states that the new proposal is intended "to address the concerns expressed by [Staff witness] Mr. Russo regarding the Company's proposed Weather Mitigation Clause and the potential rate design solutions that Mr. Beck has identified in connection with the Company's fixed cost recovery problem." Thus, while Mr. Cline does not say so directly, it appears that Laclede's newest proposal is being proposed because the Commission Staff is opposing the WMC and Laclede is searching for some other solution to its "fixed cost recovery problem" that may be more palatable to the Staff.

Q. HAVE YOU SEEN ANY EVIDENCE INDICATING THAT THE PRIMER DRIVER FACTOR DRIVING LACLEDE'S VARIOUS WEATHER MITIGATION PROPOSALS IS THE FURTHERENCE OF COMPANY AND SHAREHOLDER BENEFITS?

A. Yes. Laclede's response to OPC DR No. 740 contains a document (see Attachment RK-1) which summarizes the Company's weather mitigation "strategic initiative." About half-way down the first page of this document, Laclede summarizes the "Benefits Expected" as "greater stability in earnings." There is no mention of potential ratepayer benefits associated with the weather mitigation "strategic initiative."

Q. HAVE YOU SEEN ANY EVIDENCE INDICATING THAT LACLEDE BELIEVES THAT ITS EXISTING RATE DESIGN STRUCTURE FOR THE RECOVERY OF NON-GAS (MARGIN) COSTS ALREADY PROVIDES SIGNIFICANT WEATHER MITIGATION BENEFITS?

A. Yes. While I have not seen any acknowledgement in Laclede's testimony that its existing rate design has any significant weather mitigation benefits, Laclede's response to OPC DR No. 507 contains a document which touts the weather mitigating benefits of Laclede's current rate design.

Q. PLEASE IDENTIFY, DESCRIBE AND DISCUSS THIS DOCUMENT.

A. On June 21, 2002, Laclede responded to a survey by Moody's Investors Services on the subject of weather mitigation with the document shown in Attachment RK-2. In its response to the first question in the Moody's survey, Laclede stated that its "rate design offers some weather mitigation **." The ** footnote to Laclede's answer stated that:

> Laclede's rate structure serves to somewhat mitigate the impact of weather on net income. Specifically, the Company's rate structure includes block rates in which per therm charges are higher for the first 65 therms (residential) or 100 therms (commercial). Additionally, the Company's fixed monthly customer charge is relatively high ($12 for residential customers and $15 for commercial customers). Almost all of the Company's customers are subject to this rate structure.

Q. DOES LACLEDE'S DIRECT OR REBUTTAL TESTIMONY CONTAIN ANY COMPELLING EVIDENCE TO SHOW THAT ITS SO CALLED "FIXED COST RECOVERY PROBLEM" COULD PREVENT THE COMPANY FROM FULFILLING ITS OBLIGATION TO PROVIDE SAFE AND ADEQUATE SERVICE?

A. No. Laclede's testimony only alludes to increased difficulties that may arise if the Commission does not approve some mechanism for eliminating or substantially reducing its weather risk. Public Counsel believes that this Commission's denial of Laclede's request for a mechanism to insulate Laclede from most weather risk would have a much greater impact on the ability of Laclede's parent (the Laclede Group, Inc.) to pursue non-regulated ventures than the denial would have on Laclede's ability to provide safe and adequate services as a regulated utility. Laclede's response to OPC DR No. 507 and the Laclede Group's July 26, 2002 10-Q filing at the SEC indicate that the loan that Laclede's parent obtained to initially finance its acquisition of S M & P Utility Resources, Inc. (S M & P) contained "ratings triggers" that could cause the terms of the loan to be re-negotiated if certain changes occur in the rating agency ratings that are applicable to Laclede. Public Counsel is strongly opposed to making radical changes in the cost recovery mechanisms of the regulated portion of the Laclede Group's operations in order to further the interests of the Laclede Group's non-regulated operations such as S M & P.

Q. PLEASE DESCRIBE THE DOCUMENTS THAT YOU REFERENCED IN THE ANSWER ABOVE WHICH SHOW THAT THE LACLEDE GROUP'S NON-REGULATED OPERATIONS CAN BE ADVERSELY IMPACTED BY THE CREDIT RATINGS OF ITS REGULATED UTILITY SUBSIDIARY, LACLEDE.

A. Attachment RK-3 contains a copy of selected pages from the $43 million dollar bridge loan that the Laclede Group used to initially finance its purchase of S M & P. Section 5.01 (f) of the loan agreement contains the following language:

> Borrower [the Laclede Group] covenants and agrees that, so long as any of the Borrower's obligations remain unpaid...Borrower's utility subsidiary, Laclede Gas Company, shall maintain the following minimum debt ratings: Moody's senior secured – A3, S & P Long Term Issuer – A-.

Attachment RK-4 contains a copy selected pages from the Laclede Group's July 26, 2002 10-Q filing at the SEC. The last paragraph on the fifth page of this attachment contains the following language regarding the "rating triggers" contained in the terms of the $43 million S M & P bridge loan:

> Certain of the Company's credit facilities include rating triggers which would trigger default in the event that the Company's ratings fall below a specified level. These triggers apply specifically to the $42.8 million outstanding bank loan which was used to acquire SM&P and the $20 million working capital line of credit (none of which has been employed at this writing). Both the bank loan and the line of credit were obtained from U.S. Bank, N.A., and include interest rates at the lower of a rate indexed to LIBOR, or Prime. The applicable rating triggers are a rating on Laclede Gs Company's senior secured debt of no lower than A3 (Moody's) or A- (S&P). Therefore, these triggers would only take effect in the event of a downgrade of three notches from the current levels.

The two documents quoted above clearly indicate that a link currently exists between the credit ratings of Laclede and the ability of its parent, the Laclede Group, to obtain favorable financing terms for its non-regulated ventures.

Q. HAS LACLEDE RAISED THE CONNECTION BETWEEN ITS PROPOSALS FOR MITIGATING ITS WEATHER RISK AT ITS REGULATED OPERATIONS AND THE INTEREST THAT IT HAS IN STRONG AND STEADY EARNINGS FROM ITS REGULATED OPERATIONS IN ORDER TO HELP IT MAINTAIN AND OBTAIN FAVORABLE FINANCING FOR ITS NON-REGULATED OPERATIONS?

A. No. Laclede's direct and rebuttal testimony which urges the Commission to support its various weather mitigation proposals was silent on this issue.

Q. GIVEN THAT LACLEDE HAS FAILED TO CITE ANY CONCRETE EVIDENCE THAT THE EARNINGS FLUCTUATIONS ASSOCIATED WITH WEATHER VARIATIONS HAVE SUBSTANTIALLY HINDERED ITS ABILITY TO PROVIDE SAFE AND ADEQUATE SERVICE, DO YOU BELIEVE THAT THERE IS ANY BASIS FOR APPROVING LACLEDE'S NEW RATE

DESIGN WEATHER MITIGATION PROPOSAL IF IT IS LIKELY TO CAUSE ANY SIGNIFICANT PROBLEMS?

A. No. This testimony and the surrebuttal testimony of OPC witness Hong Hu describe a number of problems that will or may arise as a result of this new proposal so Public Counsel believes the Commission should deny this new proposal (1) because it is based on an unsubstantiated need for greater earnings stability and (2) based on the detriments to consumers and the public interest that would be created by it.

III. MECHANICS OF THE NEW LACLEDE WEATHER MITIGATION PROPOSAL

Q. HOW DOES LACLEDE'S WEATHER MITIGATION RATE DESIGN PROPOSAL ACHIEVE LACLEDE'S GOAL OF REDUCING THE EARNINGS VOLITILITY THAT CAN BE ASSOCIATED WITH WEATHER VARIATIONS FROM NORMAL?

A. The new Laclede proposal achieves this objective by making radical changes to the current block rate structure for winter season margin rates and additional radical changes to the PGA rate design.

Q. HOW DOES THE CURRENT BLOCK RATE STRUCTURE FOR RESIDENTIAL WINTER SEASON MARGIN RATES COLLECT THE PORTION OF CUSTOMER CLASS REVENUE REQUIREMENTS THAT IS NOT COLLECTED FROM THE CUSTOMER CHARGE?

A. The current block rate structure for residential margin rates contains a $.17590 charge for the first 65 therms of usage and a $.13970 charge for usage in excess of 65 therms. The remainder of the residential class margin revenue requirement is collected through the $12.00 customer charge.

Q. PLEASE DESCRIBE THE CURRENT PGA RATE STRUCTURE FOR RESIDENTIAL CUSTOMERS.

A. The current PGA rate structure for residential customers charges $.44998 for each therm of gas used. There is neither an inclining or declining block rate, just a flat rate that is applicable to each therm of usage.

Q. HOW DOES LACLEDE PROPOSE TO ALTER THE CURRENT BLOCK RATE STRUCTURE FOR RESIDENTIAL WINTER SEASON MARGIN RATES?

A. Laclede proposes to move all of the non-customer charge margin rate recovery to the first block rate that is charged for the first 65 therms of usage in each billing period. Laclede proposes to increase the rate for gas consumption in the first block rate from the current level of $.17590 to $.35589 and decrease the second block rate from the current level of $.13970 to $.00.

Q. DOES THIS MEAN THAT UNDER LACLEDE'S PROPOSAL, THERE WOULD BE NO MARGIN CHARGE FOR CONSUMPTION IN EXCESS OF 65 THERMS DURING THE WINTER SEASON?

A. Yes. Consumers will be receiving a price signal that says high levels of consumption will have no impact on the margin portion of their bill during the winter season.

Q. IN ADDITION TO REMOVING THE MARGIN RATE PRICE SIGNAL THAT CONSUMERS CURRENTLY HAVE FOR CONSUMPTION ABOVE 65 THERMS, WILL LACLEDE'S PROPOSAL DECREASE THE WEATHER SENSITIVITY OF THE MARGIN PORTION OF CUSTOMER'S BILLS?

A. Yes. That's the whole point of the many rate changes associated with Laclede's newest weather mitigation rate design proposal. By mitigating the weather sensitivity of the **margin** portion of customer's bills, Laclede is able to significantly mitigate the weather sensitivity of the revenues that it collects from customers for the **margin** portion of their bill. By mitigating the impact that weather has on the **margin** revenues that Laclede receives from customers, the Company is able to satisfy its ultimate objective, reducing the impact that weather variations have on earnings.

Q. DOES LACLEDE'S PROPOSAL ALSO DECREASE THE WEATHER SENSITIVITY OF THE PGA PORTION OF CUSTOMER'S BILLS?

A. No. Laclede apparently has no concern about the weather sensitivity of the PGA portion of the customer's bill since the ACA mechanism "trues up" this portion of the customer's bill and assures the Company of dollar for dollar recovery of its expenses that are collected from the PGA charge. My comments below will show that the Laclede proposal actually **increases** the weather sensitivity of the PGA portion of the customer's bill. In fact, the decrease in the weather sensitivity of Laclede's **margin revenues** is accomplished at the expense of enhanced weather sensitivity of **PGA revenues**. As noted above, Laclede is evidently willing to increase weather sensitivity of the rate mechanism that collects revenues to cover PGA costs since the ACA mechanism ensures that Laclede ultimately collects all of its costs in this area, even when the weather sensitivity of PGA revenues increases, as occurs with this proposal.

Q. AT THE BEGINNING OF THIS SECTION, YOU MENTIONED THAT IN ADDITION TO MAKING THE RADICAL CHANGES IN MARGIN RATES THAT YOU HAVE DESCRIBED ABOVE, LACLEDE'S PROPOSAL ALSO MAKES RADICAL CHANGES TO THE PGA RATES THAT ARE APPLICABLE TO RESIDENTIAL CUSTOMERS. PLEASE DESCRIBE THE PGA CHANGES.

A. Laclede proposes changing the structure of PGA rates by creating two blocks instead of the single rate that is currently applicable to all units of consumption. Instead of the single rate that is set at $.44998, there would be 2 PGA rates, one that applies to consumption of the first 65 therms and another that applies to consumption in excess of 65 therms. Laclede proposes to decrease the initial block PGA rate from the current unblocked rate of $.44998 to $.26999. Under Laclede's proposal, the second block rate that would be applicable to usage in excess of 65 therms would increase from the current unblocked level of $.44998 to $.58968.

Q. WOULD THE CHANGES THAT LACLEDE IS PROPOSING FOR RESIDENTIAL PGA RATES INCREASE THE WEATHER SENSITIVITY OF PGA RATES?

A. Yes. PGA rates currently have a flat rate structure so that the same rate is applicable to all levels of usage. Under Laclede's proposal, the weather sensitivity of the PGA rate for customers would be greatly magnified. This magnification occurs because winter consumption for most residential customers exceeds 65 therms under normal weather so increases or decreases in consumption due to abnormal weather occur in the second block for most customers. As the rate applicable to consumption in the second block increases, so does the impact on the PGA portion of customer bills (and the PGA revenues received by the Company) from weather-driven changes in consumption.

Q. IS THE INCREASE IN THE WEATHER SENSITIVITY OF PGA PORTION OF A CUSTOMER'S BILL THAT RESULTS FROM THE LACLEDE PROPOSAL COMPRABLE TO THE DECREASE IN WEATHER SENSITIVY IN THE MARGIN PORTION OF A CUSTOMER'S BILL?

A. Yes. In fact, the increase in the weather sensitivity of the PGA portion of a customer's bill is exactly equal to the decrease in weather sensitivity in the margin portion of a customer's bill. This equivalence occurs because the Laclede proposal simply transfers most of the weather risk from the margin portion of a bill to the PGA portion of a customer's bill. This transfer is beneficial to Laclede because it moves most of its weather risk from margin revenues to PGA revenues where a mechanism (the ACA) already exists for fully mitigating Laclede's weather risk.

Q. DOES THE PGA ALSO SERVE TO FULLY MITIGATE THE WEATHER RISK OF CUSTOMERS?

A. No. Customers face two sources of weather risk in the PGA portion of their bill. The first source of weather risk is fluctuations in usage (volumes risk) from the amount that would occur in a normal winter and the second source of weather risk is fluctuations in the commodity price of gas (commodity price risk) that tend to move in the same direction as consumption fluctuations.

Q. PLEASE EXPLAIN HOW CONSUMERS ARE FACED WITH VOLUMES RISK FOR PGA RATES.

A. As weather gets colder and consumers use more gas to keep the temperature inside their homes at a reasonable level, they will pay higher bills since there is a charge for each additional unit of consumption. Laclede's proposal actually magnifies this risk since it causes consumers to pay a higher rate per unit of consumption for the additional gas that is consumed during colder than normal winters. Customers see the impact of greater volumes of usage immediately in their monthly bills.

Q. PLEASE EXPLAIN HOW CONSUMERS ARE FACED WITH COMMODITY PRICE RISK FOR PGA RATES.

A. During colder than normal winters, the commodity price of gas that is set by the market tends to rise to reflect increasing levels of demand while gas supplies are essentially unchanged in the short run. These increasing market-determined prices for the commodity price of gas put upwards pressure on the costs that must be recovered through the PGA to the extent that the LDC does not have physical or financial hedges in place for all of the gas needed to supply its customers. Customers see the impact of higher gas prices in their monthly bills as the PGA rates are adjusted either through periodic adjustments (often in the same heating season) or through adjustments made as a result of the ACA process.

Q. CAN THE INCREASED WEATHER SENSITIVITY OF PGA RATES, AS PROPOSED BY LACLEDE, LEAD TO HARMFUL CONSEQUENCES FOR CONSUMERS?

A. Yes. Consider the example where a warmer than normal winter is followed by a colder than normal winter. During a warmer than normal winter, the increased rate for usage above 65 therms will mean that the Company is likely to under-collect the amount of revenues needed to cover gas procurement costs. This under-recovery might be addressed to some extent by PGA rate changes later in the hearing season if the under-recovery occurred towards the beginning of the heating season. However, if the under-recovery occurs in the middle or towards the end of the heating season, most of the under-recovery will probably need to be addressed in the ACA process and this will have an impact on the PGA rates in the subsequent heating season.

Now, continuing with the example where a warmer than normal heating season is followed by a colder than normal heating season, the under-recovery in the first year due to the increased weather sensitivity of rates will likely cause PGA rates to be higher in the second year than they would be under the current PGA rate structure. These higher PGA rates will be imposed on customers at the same time that customers are facing higher bills due to the increased volumes of usage and climbing gas commodity rates in the colder than normal winter.

IV. LACLEDE'S NEW WEATHER PROPOSAL IN THE BROADER CONTEXT OF WEATHER-RELATED RISK FACED BY CUSTOMERS

Q. DOES THE NEW LACLEDE WEATHER MITIGATION PROPOSAL EFFECTIVELY INSULATE THE COMPANY AND ITS SHAREHOLDERS FROM THE MAJORITY OF WEATHER-RELATED RISKS?

A. Yes. According to Mr. Cline's testimony, the new Laclede proposal is expected to fully insulate the Company and its shareholders from most of its weather-related risks associated with the recovery of the costs that are at issue in this rate case. Given that the Company, unlike consumers, faces no weather-related risk associated with the costs that are recovered through the PGA/ACA rates, the Company's proposal would insulate it from nearly all of the weather-related risks associated with its regulated utility operations.

Q. DOES THE NEW LACLEDE PROPOSAL HAVE ANY IMMEADIATE IMPACT ON THE WEATHER-RELATED RISKS FACED BY CONSUMERS?

A. No. There is no immediate impact whatsoever. Both of the Laclede witnesses that testified in support of this proposal in rebuttal testimony asserted that the new Laclede weather mitigation proposal would have no impact on customer rates or bills. Witness Cline stated at line 7 on page 5 of his testimony that:

> …from the customer's perspective there is no change in the overall rate and therefore no change in the customer's overall revenue responsibility or bill.

Mr. Cline reiterates this point at line 21 on page 8 of his testimony where he states that:

> …the price signals sent to consumers for usage in the second rate block would remain exactly the same since the total rate paid by the customer in that rate block is the same as before.

Laclede witness Paul Raab makes these same points about the new Laclede weather mitigation proposal on pages 23 and 24 of his testimony where he states that:

> The proposal does not result in changes to customers' rates based on weather deviations from normal.

and that:

> The proposal has little or no income redistribution effects, since all customers are paying the same rates they would have paid had the proposal not been implemented.

Q. YOU STATED THAT THERE IS NO" IMMEADIATE IMPACT" ON THE WEATHER-RELATED RISKS FACED BY CONSUMERS. ITS CLEAR FROM THE LACLEDE QUOTES SHOWN ABOVE THAT THE COMPANY AND ITS WITNESSES SHARE THIS VIEW. CAN THIS PROPOSAL HAVE SOME DELAYED IMPACT ON THE WEATHER-RELATED RISK FACED BY CONSUMERS?

A. Yes. As OPC witness Hong Hu describes in her surrebuttal testimony and as I explained in the preceding section of this testimony, if the increased weather sensitivity of PGA rates that is part of this proposal leads to an increase in the PGA rate for a subsequent heating season through the ACA adjustment process, then consumers could be faced with a higher PGA rate in the subsequent heating season, along with increased gas bills from colder than normal weather as volumes of consumption increase at the same time that gas commodity prices are rising. **In this situation, the new Laclede weather mitigation proposal would compound the weather-related risk faced by consumers**. This would occur because the PGA rate would be adjusted upwards to compensate for the PGA/ACA revenue shortfall in the previous year at the same time that colder-than-normal weather in the current heating is creating upward pressure on customer bills as consumers use more gas to heat their homes and pay higher per unit prices for this increased level of consumption.

Q. PLEASE COMPARE, FROM THE COMPANY'S PERSPECTIVE, THE WEATHER-MITIGATING IMPACTS OF THE NEW LACLEDE PROPOSAL TO THE WEATHER-MITIGATING IMPACTS OF THE WEATHER MITIGATION CLAUSE PRESENTED IN MR. CLINE'S DIRECT TESTIMONY.

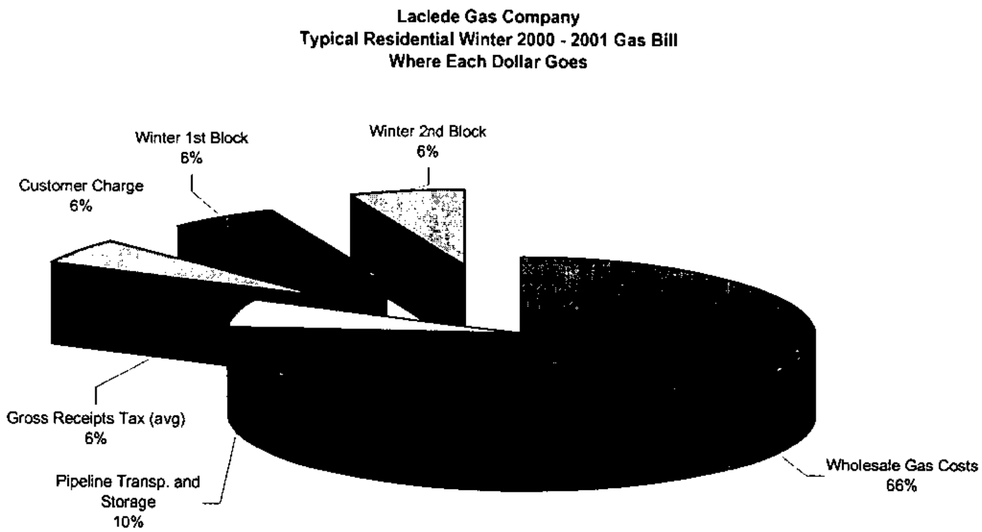
A. From the Company's perspective, these two proposals both effectively insulate Laclede and its shareholders from most of the weather risk that faced by the Company. Almost all of Laclede's weather risk is limited to the portion of the Company's revenues that come from the second margin rate block in the GS class. Both of these proposals mitigate most of the weather risk for these second block margin rate revenues.

Q. PLEASE COMPARE, FROM THE CUSTOMER'S PERSPECTIVE, THE WEATHER MITIGATING IMPACTS OF THE NEW LACLEDE PROPOSAL TO THE WEATHER MITIGATING IMPACTS OF THE WEATHER MITIGATION CLAUSE PRESENTED IN MR. CLINE'S DIRECT TESTIMONY.

A. In order to compare the two Laclede proposals from the customer's perspective, I need to review the information presented in my rebuttal testimony about the portion of a residential customer's typical winter bill (all of which is subjected to weather risk) that would be affected by Laclede's proposal. In my rebuttal testimony, I stated that:

> Laclede's WMC proposal would only adjust about 6% of a residential customer's typical winter bill to the level that would be expected under normal weather conditions.

Only about 6% of a residential customer's typical winter bill would be impacted by the WMC proposal because only about 6% of a residential customers typical bill comes from charges in the second block of the margin rate. The pie chart below illustrates the percentage of a residential customer's winter bill that goes to pay each of the various gas bill charges.



76% of a customer's bill goes to pay for the pipeline transportation and storage costs and the wholesale gas costs that are collected from customers from customers via the PGA rates. 18% of a customer's bill goes to pay for the non-gas (margin) costs that are collected from customer's via the customer charge (6%) and the first (6%) and second (6%) rate blocks. The remainder of a typical residential customer's winter bill (6%) goes to pay for gross receipts taxes.

Q. WHY WOULD THE IMPACT OF THE WMC BE MOSTLY LIMITED TO THE SECOND BLOCK MARGIN RATES?

A. During the winter, there is not much variation in first block charges for customers since most customers use over 65 therms or close to 65 therms, even in warmer than normal winters. There is, however, a significant variation in the second block margin rate charges paid by residential customers when the weather is significantly different from normal weather. For this reason, the WMC serves to mitigate the impacts of weather on the second block charges that make up 6% of a residential customer's winter bill but has very little impact on the first block charges.

Q. DOES THE NEW RATE DESIGN WEATHER MITIGATION PROPOSAL ALSO PROTECT 6% OF A RESIDENTIAL CUSTOMER'S WINTER BILL FROM WEATHER VARIATIONS?

A. No. The new Laclede proposal simply transfers the weather risk previously borne by customers in the second block margin rate to the PGA rate. There is no net reduction in the weather risk borne by customers. Unfortunately, the weather risk that is transferred to the PGA rate increases the high amount of weather risk that customers already face in the PGA rate. My rebuttal testimony describes the two sources of weather risk that consumers face in the PGA portion of their bills. Earlier in this testimony, I explained how the magnification of weather risk in the PGA that would be created by Laclede's latest weather mitigation proposal can make it more difficult for customers to afford their gas bills when a warm winter is followed by a cold winter.

V. LIKELY AND POTENTIAL DETRIMENTS OF THE NEW LACLEDE WEATHER PROPOSAL

Q. PLEASE SUMMARIZE THE DETRIMENTS ASSOCIATED WITH THE NEW LACLEDE WEATHER MITIGATION PROPOSAL.

A. Public Counsel believes that while a number of detriments associated with the new Laclede weather mitigation proposal can be readily identified at this time, additional unanticipated detriments are likely to arise in the future if the Commission decides to proceed with implementation of the radical changes that Laclede is proposing for the recovery of both distribution costs and gas procurement costs. The likely and potential detriments of the new Laclede weather mitigation proposal that Public Counsel has identified at this time include:

1) By addressing the weather risk of the Company and its shareholders **in isolation from** the major sources of weather risks faced by consumers, the Commission will forgo utilizing this opportunity to obtain a comprehensive package of measures that could address the weather-related risks faced by both the Company and its customers.

2) This proposal achieves decreased weather sensitivity in the non-gas rates by creating increased weather sensitivity in the PGA rates. Increased weather sensitivity in the PGA rates can lead to harmful customer bill impacts such as the adverse consequences described earlier in this testimony when a warmer than normal winter is followed by a colder than normal winter.

3) The complexity of the PGA rate structure and the ACA process for truing up PGA revenues with actual gas procurement costs is increased. As Hong Hu explains in her surrebuttal testimony, Laclede has not identified these new complexities or provided a plan to address them. Public Counsel is especially concerned about how the proposed new PGA block rate structure, with 4 different block rates for General Service customers would impact the amount of gas procurement costs that are recovered from residential, commercial and industrial General Service customers.

4) The proposal is unbalanced in that it only benefits the Company and its shareholders. Laclede has not offered to share the Company's risk-reducing benefits with ratepayers in a way that might begin to counteract the ratepayer detriments and possibly allow this Commission to determine that such a proposal is in the public interest. If the Company were to acknowledge that (1) the reduction in its financial risk that would occur if the Commission approved one of its weather mitigation proposals should be considered when its ROE is

determined in the next rate case and (2) that a lower ROE to reflect the Company's reduced in weather-related risk may be appropriate, **then** the Commission might be able to determine that the customer and ratepayer benefits expected to result from a weather mitigation proposal have created some public interest basis for approval. Any potential ratepayer benefits from this proposal would be purely speculative without explicit agreement from Laclede that it would be appropriate for the Commission to take its reduced weather risk into account when determining an appropriate ROE for the Company.

5) This proposal would not be consistent with the purposes of regulation.

6) This proposal would increase the complexity of the rate structure and make it more difficult for customers to determine the basis for the charges on their monthly bills.

7) This proposal would likely lead to additional costs such as an increase in billing system costs to accommodate the new billing procedures but the Company has not provided any estimate of these increased costs.

8) This proposal is not consistent with the customer views that OPC has seen in letters to the editor which have opposed special ratemaking mechanisms that would compensate Laclede for revenue decreases in warmer than normal weather.

9) Since this proposal arrived at a late stage of this rate case and incorporates a whole new approach to mitigating the Company's weather risk, it is impossible to have confidence that all of the future implications of implementing this proposal have been identified and addressed.

Q. PLEASE DISCUSS THE FIRST REASON LISTED ABOVE.

A. Public Counsel presented a comprehensive and balanced proposal in our rebuttal testimony for addressing the weather risks faced by both the Company and its customers. We believe that Laclede will probably be unwilling to agree to implement a properly-structured GSIP like the one included in the OPC proposal unless it is part of a comprehensive weather proposal. While the OPC proposal does not reduce Laclede's weather risk to the same extent as the Laclede proposals, OPC's revised margin rate blocking proposal provides meaningful weather risk relief to the Company without most of the detriments that are associated with the Laclede weather mitigation proposals.

Q. YOUR EARLIER TESTIMONY ALREADY EXPLAINED THE BASIS FOR THE SECOND, THIRD, AND FOURTH REASONS LISTED ABOVE. PLEASE PROCEED TO DISCUSS THE FIFTH REASON LISTED ABOVE.

A. The WNC is not consistent with the purposes of utility regulation. As I explained in my rebuttal testimony, utility regulation does not create an "entitlement" for the utility to earn a Commission determined return that fully compensates the utility for its cost of service. If that were the case, there would be no reason to determine an appropriate level of a risk adjusted return that should be included in a utility's rates.

Instead, utility regulation is intended to mimic the market environment that is faced by competitive firms create outcomes similar to those expected from competitive markets. As explained in my rebuttal testimony, the use of utility regulation to simulate a competitive environment and encourage the benefits that would accrue if the industry were suitable for a competitive structure that has been referred to as the competitive market paradigm.

Q. PLEASE DISCUSS THE SIXTH REASON LISTED ABOVE.

A. Earlier in this testimony I explained the increased complexity associated with the latest Laclede weather proposal. Laclede argues that the new more complex rate structure should not affect customers and the price signals that they perceive since customers can add the rates for non-gas and gas charges and see that the combined rate structure has not changed compared to the sum of the non-gas and gas rate structures that existed before the non-gas and gas rate designs were radically altered. I do not agree. I think many customers will be confused by the new rate structure and will perceive that the price signal for increased consumption has been changed significantly. There is no denying the fact that if Laclede's newest weather mitigation proposal is approved, customers who check to see what the new margin rate is will find that the rate is $.00 for usage in excess of 65 therms.

Q. PLEASE DISCUSS THE SEVENTH REASON LISTED ABOVE.

A. The Company's testimony does not provide any information regarding cost increases that are likely to be associated with the implementation of its latest weather mitigation proposal. The more complex PGA rate structure will likely lead to increased regulatory costs associated with the ACA process.

Q. PLEASE DISCUSS THE EIGTH REASON LISTED ABOVE.

A. I do not believe that most consumers would support the Laclede's latest one-sided approach to mitigating weather-related risk. I have seen letters to the editor in the St. Louis Post Dispatch where Laclede's customers expressed their "outrage" at Laclede's request to be allowed to seek compensation for its decline in earnings during the 2001/2002 heating season. Customers appear to perceive proposals like this as blatant attempts obtain a "corporate bailout" from the utility regulatory process that would come at the expense of captive ratepayers. I think most customers are offended by profitable corporations seeking this type of assistance when they themselves are struggling to make ends meet.

Q. PLEASE DISCUSS THE NINTH REASON LISTED ABOVE.

A. Public Counsel is not comfortable with the amount of time that it has had to analyze this proposal and discuss it with other parties. While Laclede makes the point that the immediate rate impacts (excluding those associated with ACA adjustments) will be minimal since changes to the margin rate structure have been offset by corresponding changes to the PGA rate structure, the Company has not addressed how the customer bill impacts associated with the two rate structures will be kept to a minimum over time as the margin rates and PGA rates are adjusted in separate rate proceedings. Many questions remain unanswered including:

- Will future changes to PGA rates be constrained by considerations of maintaining the combined effects of the two rate structures as they are today?
- Will similar constraints be applied in future rate cases?
- How could the combined rate impacts be held constant when PGA rates may be changed twice before margin rates are ever changed in a rate case?
- Will keeping the combined impacts of the two rate structures constant mean that a higher percentage of PGA rate recovery is loaded onto the second block of the PGA rate, thereby leading to even greater increases in the weather sensitivity of PGA rates than the increase associated with this proposal?

VI. SUMMARY

Q. JUST LIKE THE LACLEDE WEATHER MITIGATION CLAUSE PROPOSAL, THE COMPANY'S LATEST WEATHER MITIGATION PROPOSAL ASKS THE COMMISSION TO MAKE MAJOR POLICY CHANGES IN ORDER TO ACCOMMODATE LACLEDE'S DESIRE FOR LESS WEATHER RISK. HAS LACLEDE MADE A GOOD CASE FOR THE COMMISSION TO APPROVE ITS WEATHER MITIGATION RATE DESIGN PROPOSAL?

A. No. First of all, Laclede has not shown that the weather risk that it currently faces has in any way hindered its ability to provide safe and adequate service. Public Counsel believes that the major policy changes requested by Laclede are largely driven by considerations related to its non-regulated operations, in particular, its upcoming need to obtain long-term financing for its recent acquisition of S M & P Utility Resources, Inc. Public Counsel believes it would be highly inappropriate for the Commission to determine that major changes in the non-gas and the PGA rate design as well as major changes in the PGA/ACA process should be made in response to non-substantiated claims of financial distress and Laclede's apparent need to alter the operations of its regulated operations in order to further the interests of the non-regulated operations at Laclede's affiliates.

Public Counsel has identified a number of actual and potential detriments associated with Laclede's new weather proposal that prevent this proposal from meeting the public interest standard. Remedies for some of these detriments might be discovered over time, but many of the detriments would still remain.

Public Counsel recommends that the Commission reject the most recent Laclede weather mitigation proposals along with the earlier proposals. If the Commission believes that weather risks should be addressed in this case, then we recommend that the Commission approve the comprehensive and balanced proposal presented in our rebuttal testimony for addressing the weather risks faced by both the Company and its customers.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.

STRATEGIC INITIATIVE SUMMARY

Initiative: Approval of weather mitigation plan

Executive Owner: Kenneth J. Neises

Description of Initiative: To implement a ratemaking structure that would virtually eliminate or substantially reduce the impact of weather on the Company's recovery of distribution costs.

Financial Requirements:

	2002	2003	2004	Past '04
Revenue	--- (*)	--- (*)	--- (*)	--- (*)
O&M and other expenses	---	---	---	---
EBITDA	---	---	---	---
Capital Investment (PP&E)	---	---	---	---

Benefits Expected (including changes to any impacted measures, by year):
Greater stability in core earnings

Other Requirements (policy changes, contract changes, etc.):
The Company's billing system would have to be modified to accommodate the revised ratemaking structure. The cost to make such modifications, which would vary based on the type of new structure implemented, has not been quantified.

Departments Impacted:
Legal Department, Information Systems, Customer Relations, Regulatory Administratio

High-level Action Plan:

Action	Responsible Party	Milestone Date
Company makes tariff filing		April 2001
Billing System Modifications		
Public/Customer Communication Plan		

(*) If weather is normal, revenues and EBITDA would not be affected other than the potentia reduction that could occur if the MPSC lowers the Company's authorized ROCE in its next rate case on the basis that the Company is less risky under the new ratemaking structur

(continued on reverse side of paper)

(Revenue footnote continued from reverse side)

Aside from such impact, the change in revenues and EBITDA as a result of such structure is dependent on weather. For example, if the weather is 20% warmer than normal and the approved mechanism virtually eliminates such effect, revenues and EBITDA would increase approximately $13 million. Likewise, during a winter period that is 20% colder than normal, such structure would have the opposite effect.

(1)	(2)	(3)	(4)	(5)
% of customer base that is currently covered by weather mitigation instruments*	**Actual reported net income for 6 months ended March 2002**	**% warmer/ colder than normal weather for 6 months ended March 2002**	**Amount of *net income protection* afforded by weather mitigation instruments listed in column (1) for 6 months ended March 2002**	**Estimated net income estimation assuming 100% weather mitigation coverage for 6 months ended March 2002**
Rate design offers some weather mitigation**	$28,457,000	16% warmer than normal	$6,100,000	$ 35,114,000

* includes weather protection clauses in rate filings, weather insurance, block rates and fixed charges, etc., that serve to cover loss of income due to warmer than normal weather

** Laclede's rate structure serves to somewhat mitigate the impact of weather on net income. Specifically, the Company's rate structure includes block rates in which per therm charges are higher for the first 65 therms (residential) or 100 therms (commercial). Additionally, the Company's fixed monthly customer charge is relatively high ($12 for residential customers and $15 for commercial customers). Almost all of the Company's customers are subject to this rate structure.

Attachment RK-2

LOAN AGREEMENT

THIS LOAN AGREEMENT (this "Agreement") is made and entered into as of the 28th day of January, 2002, by and among THE LACLEDE GROUP, INC., a Missouri corporation ("Borrower"), and U. S. BANK NATIONAL ASSOCIATION, formerly known as Firstar Bank, N.A., a national banking association (the "Lender").

WITNESSETH:

WHEREAS, Borrower has applied for a term loan from the Lender in the original principal amount of up to $43,000,000.00; and

WHEREAS, Lender is willing to make said term loan available to Borrower upon, and subject to, the terms, provisions and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Borrower and Lender hereby mutually covenant and agree as follows:

SECTION 1. DEFINITIONS.

1.01 Definitions. In addition to the terms defined elsewhere in this Agreement or in any Exhibit or Schedule hereto, when used in this Agreement, the following terms shall have the following meanings (such meanings shall be equally applicable to the singular and plural forms of the terms used, as the context requires):

Borrower's Obligations shall mean any and all present and future indebtedness (principal, interest, fees, collection costs and expenses, attorneys' fees and other amounts), liabilities and obligations (including, without limitation, indemnity obligations) of Borrower to Lender evidenced by or arising under or in respect of this Agreement, the Note and/or any of the other Transaction Documents.

Business Day shall mean any day except a Saturday, Sunday or legal holiday observed by Lender.

Default shall mean any event or condition the occurrence of that would, with the lapse of time or the giving of notice or both, become an Event of Default.

Eurodollar Business Day shall mean any Business Day on which commercial banks are open for international business (including dealings in dollar deposits) in London.

Event of Default shall have the meaning ascribed thereto in Section 6.

GAAP shall mean, at any time, generally accepted accounting principles at such time in the United States.

Guaranty shall mean the Guaranty dated as of January 28, 2002 executed by SM&P in favor of Lender.

Interest Period shall mean with respect to each LIBOR Loan:

(a) initially, the period commencing on the date selected by Borrower in the applicable Interest Rate Selection Notice and ending 1, 2, 3 or 6 months thereafter as Borrower may elect in the applicable Interest Rate Selection Notice; and

(b) thereafter, each period commencing on the last day of the immediately preceding Interest Period applicable to such LIBOR Loan and ending 1, 2, 3 or 6 months, as Borrower may elect in the applicable Interest Rate Selection Notice;

Regulation U of The Board of Governors of the Federal Reserve System, as amended) and no part of the proceeds of the Loan will be used, whether directly or indirectly, and whether immediately, incidentally or ultimately (a) to purchase or carry margin stock or to extend credit to others for the purpose of purchasing or carrying margin stock, or to refund or repay indebtedness originally incurred for such purpose or (b) for any purpose that entails a violation of, or which is inconsistent with, the provisions of any of the Regulations of The Board of Governors of the Federal Reserve System, including, without limitation, Regulations U, T or X thereof, as amended. If requested by Lender, Borrower shall furnish to Lender a statement in conformity with the requirements of Federal Reserve Form U-1 referred to in Regulation U.

4.07 Investment Company Act of 1940; Public Utility Holding Company Act of 1935. Borrower is not an "investment company" as that term is defined in, and is not otherwise subject to regulation under, the Investment Company Act of 1940, as amended. Borrower is an exempt holding company pursuant to 15 U.S.C. 79c(a)(1).

4.08 No Default. No Default or Event of Default under this Agreement has occurred and is continuing. There is no existing default or event of default under or with respect to any indenture, contract, agreement, lease or other instrument to which Borrower is a party or by which any property or assets of Borrower is bound or affected, a default under which could reasonably be expected to have a Material Adverse Effect. Borrower has and is in full compliance with and in good standing with respect to all governmental permits, licenses, certificates, consents and franchises necessary to continue to conduct its business as previously conducted by it and to own or lease and operate its properties and assets as now owned or leased by it, the failure to have or noncompliance with which could reasonably be expected to have a Material Adverse Effect. Borrower is not in violation of any applicable statute, law, rule, regulation or ordinance of the United States of America, of any state, city, town, municipality, county or of any other jurisdiction, or of any agency thereof, a violation of which could reasonably be expected to have a Material Adverse Effect.

SECTION 5. COVENANTS.

5.01 Covenants of Borrower. Borrower covenants and agrees that, so long as any of the Borrower's Obligations remain unpaid:

(a) Information. Borrower will deliver to Lender:

(i) within one hundred (100) days after the end of each fiscal year of Borrower: (A) a consolidated balance sheet of Borrower and its Subsidiaries as of the end of such fiscal year and the related consolidated statements of income, retained earnings and cash flows for such fiscal year, setting forth in each case, in comparative form, the figures for the previous fiscal year, all such financial statements to be prepared in accordance with GAAP consistently applied and reported on by and accompanied by the unqualified opinion of independent certified public accountants selected by Borrower and reasonably acceptable to Lender; provided, however, that delivery to Lender of the Annual Report on Form 10-K of Borrower for such fiscal year filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this Section 5.01(a)(i);

(ii) within fifty (50) days after the end of the first three (3) fiscal quarters of each fiscal year of Borrower, a consolidated balance sheet of Borrower and its Subsidiaries as of the end of such fiscal quarter and the related consolidated statements of income, retained earnings and cash flows for such fiscal quarter and for the portion of Borrower's fiscal year ended at the end of such fiscal quarter, setting forth in each case in comparative form, the figures for the corresponding fiscal quarter and the corresponding portion of Borrower's previous fiscal year, all in reasonable detail and satisfactory in form to Lender and certified (subject to normal year-end adjustments and absence of footnote disclosures) as to fairness of presentation, consistency and compliance with GAAP by the chief financial officer of Borrower; provided, however, that delivery to Lender of copies of the Quarterly Report on Form 10-Q of Borrower for such fiscal quarter filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this Section 5.01(a)(ii);

(iii) simultaneously with the delivery of each set of financial statements referred to in Sections 5.01(a)(i) and (ii) above, a certificate of an authorized officer of Borrower in the form attached hereto as Exhibit B and incorporated herein by reference (A) stating whether there exists on the date of such certificate any Default or Event of Default and, if any Default or Event of Default then exists, setting forth the details thereof and the action which Borrower is taking or proposes to take with respect thereto and (B) certifying that all of the representations and warranties made by Borrower in this Agreement and/or in any other Transaction Document are true and correct in all material respects on and as of the date of such certificate as if made on and as of the date of such certificate; and

(iv) with reasonable promptness, such further information regarding the business, affairs and financial condition of Borrower as Lender may from time to time reasonably request.

(b) Corporate Existence. Borrower will do all things necessary to (i) preserve and keep in full force and effect at all times its corporate existence and all permits, licenses, franchises and other rights material to its business and (ii) be duly qualified to do business and be in good standing in all jurisdictions where the nature of its business or its ownership of property or assets requires such qualification except for those jurisdictions in which the failure to qualify or be in good standing could not reasonably be expected to have a Material Adverse Effect.

(c) Compliance with Laws, Regulations, Etc. Borrower will comply with any and all laws, ordinances and governmental and regulatory rules and regulations to which Borrower is subject and obtain any and all licenses, permits, franchises and other governmental and regulatory authorizations necessary to the ownership of its properties or assets or to the conduct of its business, which violation or failure to obtain could reasonably be expected to have a Material Adverse Effect.

(d) Further Assurances. Borrower will execute and deliver to Lender, at any time and from time to time, any and all further agreements, documents and instruments, and take any and all further actions which may be required under applicable law, or which Lender may from time to time reasonably request, in order to effectuate the transactions contemplated by this Agreement and the other Transaction Documents.

(e) Consolidation or Merger. Borrower will not directly or indirectly merge or consolidate with or into any other Person.

(f) Debt Ratings. Borrower's utility subsidiary, Laclede Gas Company, shall maintain the following minimum debt ratings: Moody's senior secured– A3, S&P Long Term Issuer– A-.

(g) Stock and Assets of Subsidiaries. Unless the prior written consent of Lender is obtained, Borrower will not create, incur or assume or suffer to be incurred or to exist any lien on any of the common stock of Laclede Gas Company and SM&P or on any of the assets of SM&P other than purchase money liens and other than security interests currently granted to BLC Corporation.

5.02 Use of Proceeds. Borrower covenants and agrees that (a) the proceeds of the Loan will be used solely to fund the transactions described in the Stock Purchase Agreement, (b)no part of the proceeds of the Loan will be used in violation of any applicable law, rule or regulation and (c)no part of the proceeds of the Loan will be used, whether directly or indirectly, and whether immediately, incidentally or ultimately () to purchase or carry margin stock or to extend credit to others for the purpose of purchasing or carrying margin stock, or to refund or repay indebtedness originally incurred for such purpose or (ii) for any purpose which entails a violation of, or which is inconsistent with, the provisions of any of the Regulations of The Board of Governors of the Federal Reserve System, including, without limitation, Regulations U, T or X thereof, as amended.

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the Quarter Ended June 30, 2002
OR
( ) TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number	Exact Name of Registrant as Specified in its Charter and Principal Office Address and Telephone Number	States of Incorporation
1-16681	The Laclede Group, Inc. 720 Olive Street St. Louis, MO 63101 314-342-0500	Missouri
1-1822	Laclede Gas Company 720 Olive Street St. Louis, MO 63101 314-342-0500	Missouri

Indicate by check mark whether the registrant:

(1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such report),

The Laclede Group, Inc.:	Yes X	No ____
Laclede Gas Company:	Yes X	No ____

and (2) has been subject to such filing requirements for the past 90 days:

The Laclede Group, Inc.:	Yes X	No ____
Laclede Gas Company:	Yes X	No ____

Attachment RK-4

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date:

Registrant	Description of Common Stock	Shares Outstanding July 26, 2002
The Laclede Group, Inc.	Common Stock ($1.00 Par Value)	18,917,068
Laclede Gas Company	Common Stock ($1.00 Par Value)	100 (100% o Laclede

Attachment RK-4

LACLEDE GROUP INC filed this 10-Q on 07/26/2002.

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Filing Format

This Quarterly Report on Form 10-Q is a combined report being filed by two separate registrants: The Laclede Group, Inc. (Laclede Group or the Company) and Laclede Gas Company (Laclede Gas or the Utility).

Effective October 1, 2001, Laclede Gas and its subsidiaries became subsidiaries of The Laclede Group. At that time stock certificates previously representing shares of Laclede Gas common stock were deemed to represent the same number of shares of The Laclede Group common stock. All of the former subsidiaries of Laclede Gas (Laclede Investment LLC, Laclede Energy Resources, Inc., Laclede Gas Family Services, Inc., Laclede Development Company, Laclede Venture Corp. and Laclede Pipeline Company) are now subsidiaries of Laclede Group.

Attachment RK-4

LACLEDE GROUP INC filed this 10-Q on 07/26/2002.

Statement to be accounted for using the purchase method. The provisions of this Statement apply to all business combinations initiated after June 30, 2001. The Company has adopted the provisions of SFAS No. 141 with the acquisition of SM&P. As required by SFAS No. 141, the goodwill for SM&P is being accounted for consistent with the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets."

Credit Ratings

As of June 30, 2002, credit ratings of the Company were as follows:

Type of Facility	Moody's	S&P	Fitch
Laclede Gas Commercial Paper	P-1	A-1	
Laclede Group Corporate		A+	
Laclede Gas First Mortgage Bonds	A1	A+	A+

On April 24, 2002, Standard & Poors (S&P) downgraded the rating for Laclede Gas' First Mortgage Bonds from AA- to A+, and also downgraded the commercial paper rating from A-1+ to A-1. S&P cited bondholder protection parameters that have eroded due to several successive warmer-than-normal winters and increasing debt leverage as reasons for the downgrade. On May 2, 2002, Moody's downgraded Laclede Gas' First Mortgage Bonds from Aa3 to A1. Moody's cited concerns regarding Laclede's weakened credit measures due to increased earnings pressure and near-term regulatory risk. Moody's outlook remains negative due to regulatory risk.

Despite these recent downgrades, the Company's ratings remain investment grade, and the Company believes that it will have adequate access to the markets to meet its capital requirements. These ratings however, remain subject to review and change by the rating agencies.

Liquidity and Capital Resources

The Company's short-term borrowing requirements typically peak during colder months when Laclede Gas borrows money to cover the gap between when it purchases its natural gas and when its customers pay for that gas. These short-term cash requirements have traditionally been met through the Utility's sale of commercial paper supported by lines of credit with banks. Laclede Gas currently has a primary line of credit for $135 million extending through September 30, 2002. Laclede Gas also has supplemental lines of credit expiring in January 2003 that bring the total credit lines to $150 million currently. During fiscal 2002 to date, the Utility sold commercial paper aggregating to a maximum of $139.7 million at any one time, but did not borrow from the banks under the aforementioned lines of credit. Commercial paper amounted to $70.5 million at June 30, 2002.

Short-term cash requirements outside of Laclede Gas have been met thus far

Attachment RK-4

with internally-generated funds. However, Laclede Group has put into place a working capital line of credit for $20 million, expiring in June 2003, to meet short-term funding needs of its non-utility subsidiaries. While this line has not been used to date, it is expected to be used for seasonal needs of the various subsidiaries from time to time throughout the year.

On April 22, 2002, Laclede Group filed a registration statement on Form S-3 with the Securities and Exchange Commission (SEC) in connection with the sale of up to $500 million of equity securities, other than preferred stock, and debt securities. This registration statement became effective on May 6, 2002. The amount, timing and type of financing to be issued under this shelf registration will depend on cash requirements and market conditions.

Certain of the Company's credit facilities include rating triggers which would trigger default in the event that the Company's ratings fall below a specified level. These triggers apply specifically to the $42.8 million outstanding bank loan which was used to acquire SM&P and the $20 million working capital line of credit (none of which has been employed at this writing). Both the bank loan and the line of credit were obtained from U.S. Bank, N.A., and include interest rates at the lower of a rate indexed to LIBOR, or Prime. The applicable rating triggers are a rating on Laclede Gas Company's senior secured debt of no lower than A3 (Moody's) or A- (S&P). Therefore, these triggers would only take effect in the event of a downgrade of three notches from the current levels.

Attachment RK-4