

Exhibit No.:

Issue:

Witness:

Type of Exhibit:

Sponsoring Party:

Case No.:

Cost Allocation Manual

Patricia A. Krieger

Direct Testimony

Laclede Gas Company

GM-2001-342

LACLEDE GAS COMPANY

DIRECT TESTIMONY

OF

PATRICIA A. KRIEGER

FILED²

APR 23 2001

Missouri Public
Service Commission

April 23, 2001

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

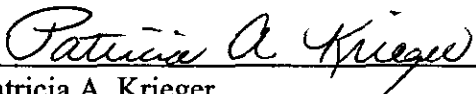
In the Matter of the Application of Laclede)
Gas Company for an Order Authorizing)
Its Plan to Restructure Itself Into a Holding) Case No. GM-2001-342
Company, Regulated Utility Company, and)
Unregulated Subsidiaries.)

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**

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- Q. Please state your name and business address.
- A. My name is Patricia A. Krieger and my business address is 720 Olive St., St. Louis, Missouri 63101.
- Q. What is your present position?
- A. I am Manager of Accounting for Laclede Gas Company.
- Q. Please state how long you have held your position and briefly describe your responsibilities.
- A. I was promoted to my present position in January, 1997. I am responsible for managing four departments: Financial Reporting, General Accounting, Gas Accounting, and Asset Management. These departments maintain the books of the Company in accordance with generally accepted accounting principles and the rules and regulations of this Commission. Financial Reporting duties include preparing reports to the Securities and Exchange Commission, to stockholders, and to this Commission. General Accounting duties include processing of payments to our suppliers and maintaining various records. Gas Accounting accounts for the Company's natural gas costs and customer revenues, as well as analyzing the effects of weather on customer sales. Asset Management maintains the continuing property records of the Company and carries out related duties.
- Q. What is your educational background?
- A. I graduated from Saint Louis University in 1976 with the degree of Bachelor of Science in Business Administration, majoring in accounting.

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.