

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

In the Matter of Laclede Gas Company's) Case No. GR-2005-0284
Tariff to Revise Natural Gas Rate Schedules)

STIPULATION AND AGREEMENT

On February 18, 2005, Laclede Gas Company (“Laclede” or “Company”) submitted to the Missouri Public Service Commission (“Commission”) revised tariff sheets reflecting increased rates for gas service provided to customers in its Missouri service area. The proposed tariff sheets contained a requested effective date of March 21, 2005, and were designed to produce an annual increase of approximately \$39 million in permanent rates charged for gas service. The then existing interim rates included approximately \$5 million to be recovered on an annual basis through the Company’s Infrastructure System Replacement Surcharge (ISRS). The ISRS would be reset to zero upon implementation of new rates in this proceeding, which would have resulted in a proposed net change in rates of approximately \$34 million. In addition to the proposed tariff sheets, the Company also submitted its minimum filing requirements and prepared direct testimony in support of the requested rate increase.

By Order dated February 28, 2005, the Commission suspended the proposed tariff sheets and established a procedural schedule for interventions and evidentiary hearings. On May 12, 2005, the Commission issued its Order Establishing Procedural Schedule in which it established additional and revised procedural dates. In various orders, the Commission also granted the applications to intervene filed by the Missouri Energy Group (Barnes-Jewish Hospital, Emerson Electric Company, SSM HealthCare, and St. John's Mercy Health Care); Missouri Industrial Energy Consumers (Anheuser-Busch

Companies Inc., The Boeing Company, DaimlerChrysler, Ford Motor Company, General Motors Corporation, Hussmann Refrigeration, J.W. Aluminum, Monsanto Company, Pfizer, Precoat Metals, Proctor & Gamble Manufacturing Company, Nestle Purina, Solutia, and Tyco Healthcare); the Paper Allied-Industrial, Chemical and Energy Workers Local 5-6, AFL-CIO; and the Missouri Department of Natural Resources.

Pursuant to the procedural schedule established by the Commission, a settlement conference was convened beginning on July 18, 2005. All of the above parties appeared at the settlement conference. As a result of the settlement conference and further discussions, the undersigned parties (the “Parties”) have reached the following stipulations and agreements resolving all issues in this case.

Laclede respectfully requests that the Commission consider and approve this Stipulation and Agreement in sufficient time for the tariffs proposed herein to become effective by October 1, 2005, or as soon thereafter as is reasonably practicable. No party objects to Laclede’s request.

Revenue Requirement

1. The Parties agree that Laclede shall be authorized to file revised tariff sheets containing new rate schedules for natural gas service. Such schedules are designed to: (a) produce an incremental annual increase in Laclede’s non-gas, Missouri jurisdictional revenues of Ten Million, Five Hundred Thousand Dollars (\$10,500,000), which includes Six Million, One Hundred Twenty Six Thousand Dollars (\$6,126,000) in Infrastructure System Replacement Surcharges that have previously been authorized by the Commission and are already in effect; and (b) reflect in Laclede’s Purchased Gas Adjustment/Actual Cost Adjustment mechanism and remove from its non-gas cost of

service Four Million, One Hundred Forty Thousand Dollars (\$4,140,000) in costs related to its financing of certain gas storage inventories. Revenue amounts referenced in this paragraph are exclusive of any applicable license, occupation, franchise, gross receipts taxes or other similar tax or taxes. The Parties further agree that such revenue requirement shall be allocated to the Company's various customer classes in accordance and consistent with the customer billing determinants set forth in Attachment 1 to this Stipulation and Agreement, and in accordance with the tariff sheets set forth in Attachment 2 to this Stipulation and Agreement, which are incorporated herein for all purposes.

Tariff Modifications

2. The Parties agree that the specimen tariff sheets and rate schedules set forth in Attachment 2 should be approved. Such tariff sheets contain several modifications to Laclede's existing tariff, including modifications designed to:

- (a) increase to two dollars (\$2.00) per therm the charge to the Company's Interruptible Customers for gas used during periods of interruption (Tariff Sheet No. 7);
- (b) on an experimental basis, and subject to ultimate compliance with the results of an upcoming Chapter 13 rulemaking, permit the use of credit scoring as a means of determining when the Company may require deposits (Tariff Sheet Nos. R-3 and R-5-a). The analysis used by the Company to determine when a credit score will result in the collection of a deposit shall be based on a representative assessment of how various credit scores have correlated with previous customer payment

performance and shall be submitted to the Staff and Public Counsel for their review and concurrence in advance of credit scoring being implemented. The Staff and Public Counsel shall have the right to submit for Commission resolution any dispute they may have regarding the propriety of such analysis or the credit score determinations resulting therefrom in advance of the implementation of credit scoring in which event the Company shall have the burden of proof to show that such analysis and determinations are reasonable. The parties agree that the aforementioned review shall be expedited to the extent practicable. Upon implementation of credit scoring, the Company will apply the same criteria to residential rental customers as are applied to homeowners. The criteria for determining whether a deposit is applicable for a new applicant will be whether the nationally recognized credit bureau issues a passing or failing score. A "no score" rating will result in a deposit being assessed;

- (c) change the calculation of the maximum amount of deposit that may be required from two times the highest bill incurred over the past 12 months for residential customers, and 60 days' bill for non-residential customers, as required under the current tariff, to four times the average bill incurred over a 12 month period (Tariff Sheet Nos. R-5-b and R-5-d);
- (d) on an experimental basis, and subject to ultimate compliance with the results of an upcoming Chapter 13 rulemaking, expand the hours that service may be discontinued from the existing hours of 8:00 am to 4:00

pm to the hours of 7:00 am to 7:00 pm or to sunset, whichever is earlier (Tariff Sheet No. R-12-a);

- (e) on an experimental basis, and subject to ultimate compliance with the results of an upcoming Chapter 13 rulemaking, increase the number of days that a notice of discontinuance is effective from the existing number of eleven (11) business days to thirty (30) calendar days (Tariff Sheet No. R-12-a);
- (f) increase the returned payment charge from the existing amount of ten dollars (\$10.00) to fifteen dollars (\$15.00) (Tariff Sheet No. 31); and
- (g) revise the customer notice provisions applicable to the Company's transportation customers (Tariff Sheet No. 36).

3. In addition to the tariff modifications described in paragraph 2, the Parties further agree that the Commission should approve the Purchased Gas Adjustment ("PGA") tariff modifications set forth on the Tariff Sheets in Attachment 2 to this Stipulation and Agreement. Pursuant to the agreement of the Parties, such tariff modifications have also been filed for the Commission's consideration so that they may become effective contemporaneous with the start of the Company's next Actual Cost Adjustment ("ACA") period. Among other things, such PGA tariff modifications are designed to:

- (a) reduce the complexity of the accounting underlying Laclede's existing PGA/ACA, including elimination of the refund factor, and provide for the application of carrying costs for both the customer and the Company for any over- or under-recoveries of gas costs, including hedging costs, that

may occur between ACA cases, as well as balances remaining from prior periods (Tariff Sheet Nos. 18-b – 22);

- (b) provide the Company with the opportunity to make up to three discretionary PGA filings each year in addition to one mandatory filing each November (Tariff Sheet Nos. 28-c and 28-c.1);
- (c) reflect in the PGA/ACA and annually reconcile in subsequent ACA filings increases and decreases in the financing costs for gas storage inventories (Tariff Sheet Nos. 15, 17 and 28-h).

Pensions and Other Post-Employment Benefits

4. The Parties agree that the rates established in this case for the Laclede Division and Missouri Natural Division pension plans include an allowance of \$4,052,902 (based on the fiscal 2006 ERISA Minimum Contribution of \$652,902 as determined by the Company's actuary and a \$3,400,000 amortization). Rate base is reduced annually by the amortization, plus or minus the difference between the minimum ERISA in rates and the minimum ERISA contributed to the pension fund.

The Parties further agree that Laclede Gas Company shall continue to be authorized to revert to the accounting policy it originally implemented upon adoption of FAS 87, for financial reporting purposes only, effective October 1, 2002, including without limitation:

- (a) Market-Related Value implemented prospectively over a four-year period;
- (b) Amortization of unrecognized gains or losses only to the extent that they fall outside of a 10% corridor as described in FAS 87 and FAS 106;

(c) Amortization of unrecognized gains or losses falling outside of the 10% corridor over the average remaining service life of participants.

5. The Parties further agree that gains and losses for all pension lump-sum settlements shall continue to be calculated only to the minimum extent permitted by FAS 88 and that the Company shall continue to be authorized to record as a regulatory asset/liability, as appropriate, the difference between the pension expense used in setting rates (\$4,052,902 described above) and the pension expense as determined pursuant to FAS 87 and FAS 88. This regulatory asset/liability shall continue to be included in the Company's rate base in future rate proceedings. The prepaid pension asset on the Company's books at October 1, 2002, is the maximum amount that will be considered for inclusion in rate base in future rate proceedings, so long as the ERISA Minimum method of determining pension expense prescribed herein is in effect. The Parties further agree that the Company shall continue to reduce the rate base annually as described above in paragraph 4. The rates established in this case for the Supplemental Retirement Plan (SERP) and Directors Retirement Plan are based on actual payments to participants under these plans.

6. The Parties agree that the rates resulting from this case also make provision for the recovery of Other Post-Employment Benefits ("OPEBs") costs on a FAS 106 basis. The Parties further agree that the Company shall continue to be authorized to apply its accounting policy relative to OPEBs consistent with that specified for FAS 87 above, for financial reporting purposes only, as was initially effective October 1, 2002. For ratemaking and funding purposes, the OPEBs expense will continue to be determined using the market-related value implemented prospectively over

a four-year period and a five-year amortization of the most recent five-year average of the balance of unrecognized gains and losses, as calculated by the Company's actuary. The Company shall continue to be authorized to record the difference between OPEBs as calculated for rates and FAS 106 as calculated for financial reporting purposes as a regulatory asset/liability, as appropriate. The Company shall also calculate a prepaid OPEB asset/liability for the difference between OPEB funding and the FAS 106 expense reported for financial purposes, that completely offsets the regulatory asset or liability. The net of the OPEB regulatory asset or liability and the OPEB prepaid asset/liability will be included in rate base in future rate proceedings.

Depreciation Issues

7. The Parties agree that the depreciation rates, as set forth in Attachment 3 to this Stipulation and Agreement, which is hereby incorporated herein for all purposes, should be approved by the Commission and become effective on January 1, 2006. In compliance with the Commission's final order in Case No. GR-99-315, the depreciation rates authorized herein are designed, in part, to recover the net salvage cost of plant which shall no longer be treated as an expense for ratemaking or financial accounting purposes. Consistent with the Commission's decision in Case No. GR-99-315, the net salvage component will continue to be accounted for separately and specifically identifiable in the reserve for depreciation.

Accounting Authorizations/Reservation of Rights

8. The Parties agree that Laclede shall, for book purposes, be authorized to continue to normalize the income tax timing differences inherent in the recognition of pension costs, OPEB costs, and AAO recoveries as authorized in Paragraphs 4, 5, 6, and

10 of this Stipulation and Agreement; by recording and recognizing in any future rates deferred income tax expense for such differences, provided that the Parties shall have the right to review and propose a different treatment of such timing differences in Laclede's next general rate case proceeding.

9. Nothing herein shall be construed as prejudicing whatever rights the Company has upon conclusion of this case to pursue accounting authorizations or rate adjustment mechanisms to reflect increases or decreases in revenues resulting from changes in customer usage levels or increases or decreases in the costs incurred by the Company to comply with environmental laws, rules or regulations.

10. The Parties agree that the Company shall establish a regulatory asset equal to the balances deferred pursuant to the Accounting Authorization related to gas safety expenditures in Case No. GR-2002-356, less an adjustment related to the Accounting Authorization for the Emergency Cold Weather Rule Amendment (ECWRA) in Case Nos. GR-2001-629 and GR-2002-356. Such regulatory asset balance shall be set at \$859,805 less \$27,801 and further reduced by \$2,055 per day from July 31, 2005, to the effective date of the rates in this proceeding for the final reconciliation of the ECWR adjustment. One-tenth of the balance on the effective date of rates in this case has been included in the cost of service recognized in this proceeding and one-tenth of such balance shall continue to be reflected in cost of service annually for the next subsequent nine (9) years.

Off-System Sales/Capacity Release Revenues

11. The rates recommended herein reflect an imputed level of revenues for the release of pipeline capacity and for off-system sales. In exchange for this imputation, the

Company shall be permitted to retain 100% of any net revenues realized from such transactions during the period the rates established in this proceeding are in effect up to a total annual level of Twelve million dollars (\$12,000,000), with each annual period beginning on the effective date or the anniversary of the effective date of the rates established in this proceeding. Fifty percent (50%) of the net revenues from release of pipeline capacity and from off-system sales realized by the Company in any such annual period which are in excess of \$12,000,000 shall be deferred and accumulated in a separate account, including accumulation of any interest at prime minus two percent, and distributed to customers in the Company's next general rate case proceeding, provided that the Company shall inform the Staff and Public Counsel in the event the accumulated amount deferred on customers' behalf, including interest, equals or exceeds Five million dollars (\$5,000,000). In this event, the Staff or Public Counsel may petition the Commission for an immediate distribution of such funds. The Parties further agree that the Company's tariff relating to off-system sales shall be modified to incorporate by reference therein the terms of this Paragraph 11 of this Stipulation and Agreement, as set forth on Tariff Sheet No. R-43 in Attachment 2. As stated therein, in the event of a conflict between this Paragraph 11 of this Stipulation and Agreement and Tariff Sheet No. R-43, Paragraph 11 of this Stipulation and Agreement will be controlling. It is also expressly understood that any party shall be free in the Company's next general rate case proceeding to propose prospective modifications to, or termination of, the treatment of off-system sales and capacity release revenues proposed herein. Nothing herein shall be construed as prejudicing whatever rights the parties have upon conclusion of this case to pursue the determination of whether such treatment, or an alternative treatment, should be

approved by the Commission, provided that, subject to the market-out clause of the GSIP being exercised, no changes will be made to such treatment any sooner than the effective date of rates in the Company's next general rate case proceeding. Nothing in this agreement precludes the Staff from proposing any adjustment in a future ACA case that the Staff deems appropriate, but there is no provision in this agreement that prohibits the Company from making any arguments in opposition to a proposed Staff ACA adjustment.

Gas Supply Incentive Plan

12. The Parties agree that the Gas Supply Incentive Plan as described and set forth in Tariff Sheet Nos. 28-b.1-b.3 of Attachment 2 to this Stipulation and Agreement, should be approved by the Commission. It is expressly understood that any party shall be free in the Company's next general rate case proceeding to propose prospective modifications to, or termination of, the GSIP proposed herein. Nothing herein shall be construed as prejudicing whatever rights the parties have upon conclusion of this case to pursue the determination of whether the GSIP proposed herein, or an alternative GSIP, should be approved or terminated by the Commission, provided that, subject to the market-out clause of the proposal, no changes will be made to the GSIP any sooner than the effective date of rates in the Company's next general rate case proceeding.

Low-Income Energy Assistance Program

13. The Parties agree that a low-income energy assistance program as described and set forth in Attachment 4 to this Stipulation and Agreement, which is incorporated herein for all purposes, should be approved by the Commission.

Low-Income Weatherization and Efficiency Rebate Programs

14. The Parties agree that the funding of the Company's existing low-income weatherization program should be increased, that a new high-efficiency-appliance rebate program should be implemented, and that the Company's existing EnergyWise high-efficiency loan program should be supplemented, consistent with the recommendations set forth in Attachment 5 to this Stipulation and Agreement, which is incorporated herein for all purposes.

Provision of Additional Information/Bill Redesign

15. Laclede agrees to provide to Staff and Public Counsel the following monthly information within forty-five days of the end of each quarterly period: (a) abandoned call rate; (b) average speed of answer; (c) total calls offered to the call center; (d) call center staffing levels (by position); (e) number and percentage of estimated meter reads; and (f) number of consecutive meter reads estimated for a period greater than seven (7) months. It is expressly understood by the Parties that the manner in which the foregoing terms are defined and the manner in which the foregoing data is measured, collected and analyzed, as well as other circumstances, can vary from utility to utility. Laclede further agrees to respond to all inquiries and complaints from Staff's Consumer Services Department within three (3) business days, except for interruption of service issues, which shall be responded to within one (1) business day. The Commission Staff will advise the customer of his/her right to file a formal complaint with the Commission pursuant to Commission rules. The Company also agrees to present to Staff and Public Counsel for their review and input an entirely new design of its bill that shall be structured to provide its customers with more meaningful information regarding the cost and character of their service. Such bill redesign, which will be implemented through a

conversion to envelope billing, shall be presented to Staff and Public Counsel by April 1, 2006 and is intended to be implemented no later than January 1, 2007.

Infrastructure System Replacement Surcharge

16. As required by Commission rules, the Company's current ISRS shall be reset to zero upon the effective date of new rates in this proceeding. The Parties further agree that, for any ISRS filings implemented between the date new rates are established in this proceeding and the effective date of new rates established in the Company's next general rate case proceeding, the overall rate of return and capital structure calculations and method set forth in Attachment 6 to this Stipulation and Agreement, which is hereby incorporated herein for all purposes, shall be used. Plant in service additions for inclusion in a future ISRS will be limited to additions subsequent to July 31, 2005. The parties agree to resolve the ISRS issue regarding income tax by reducing the Company's filed amount by half of the value of the Staff's tax adjustment. In exchange for this reduction, the parties agree that the ISRS will be implemented as soon as reasonably possible, contingent on the Company's timely provision of data and information, including response to discovery, and the availability of the parties resources to process the surcharge.

Other Provisions

17. The Parties agree that the revenue amounts referenced in this Agreement do not include the cost associated with any bonuses paid or accrued through the Management Bonus Plan instituted by Laclede Gas Company in 2003. None of the signatories to this Stipulation and Agreement shall be deemed to have approved or acquiesced in any ratemaking or procedural principle, including, without limitation, any

method of cost determination or cost allocation, depreciation or revenue related method or any service or payment standard, and none of the signatories shall be prejudiced or bound in any manner by the terms of this Stipulation in this or any other Commission, judicial review or other proceeding, except as otherwise expressly specified herein. Nothing in this Stipulation and Agreement shall preclude the Staff in future proceedings from providing recommendations as requested by the Commission or limit Staff's access to information in any other proceedings. Nothing in this Stipulation and Agreement shall be deemed a waiver of any Commission statute or regulation.

18. This Stipulation and Agreement has resulted from extensive negotiations among the signatories and the terms hereof are interdependent. In the event the Commission does not approve this Stipulation and Agreement by October 1, 2005, or as soon thereafter as is reasonably practicable, or approves this Stipulation and Agreement with modifications or conditions that a Party to this proceeding objects to, then this Stipulation and Agreement shall be void and no signatory shall be bound by any of the agreements or provisions hereof.

19. In the event the Commission accepts the specific terms of this Stipulation and Agreement, the Parties waive, with respect to the issues resolved herein: their respective rights pursuant to Section 536.080.1 (RSMo. 2000) to present testimony, to cross-examine witnesses, and to present oral argument and written briefs; their respective rights to the reading of the transcript by the Commission pursuant to Section 536.080.2 (RSMo. 2000); and their respective rights to judicial review of the Commission's Report and Order in this case pursuant to Section 386.510 (RSMo. 2000).

20. The Parties agree that all of the prefiled testimony submitted in this case, as well as affidavits prepared and filed by any of the Parties in lieu of Memoranda in Support, that relates to any issue resolved by this Stipulation and Agreement shall be received into evidence without the necessity of the respective witnesses taking the stand.

21. The Staff shall also have the right to provide, at any agenda meeting at which this Stipulation and Agreement is noticed to be considered by the Commission, whatever oral explanation the Commission requests, provided that Staff shall, to the extent reasonably practicable, provide the other Parties with advance notice of when the Staff shall respond to the Commission's request for such explanation once such explanation is requested from Staff. Staff's oral explanation shall be subject to public disclosure, except to the extent it refers to matters that are privileged or protected from disclosure pursuant to any protective order issued in this case.

22. The nonsignatory parties to this case have had an opportunity to review this Stipulation and Agreement and expressed no objection to its contents.

WHEREFORE, for the foregoing reasons, the undersigned Parties respectfully request that the Commission issue its Order approving all of the specific terms and conditions of this Stipulation and Agreement.

Respectfully submitted,

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 31st day of August 2005.

/s/ David A. Meyer