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March 17, 2003

FILED[3]
MAR 17 2003
Missouri Public Service Commission

Mr. Dale Hardy Roberts
Executive Secretary
Missouri Public Service Commission
200 Madison Street, PO Box 360
Jefferson City, MO 65102-0360

RE: In the Matter of the Tariff Filing of Laclede Gas Company - Case No. GT-2003-0032
Tariff No. JG-2003-0048

Dear Mr. Roberts:

Enclosed please find for filing the original plus eight (8) copies of the Supplemental Direct Testimony of Louie R. Ervin to be filed on behalf of Missouri School Boards' Association in the above-captioned matter.

Due to a mailing error, Mr. Ervin's affidavit did not arrive today. We will file it supplemental on March 18, 2003.

If you should have any questions concerning the enclosed filing, please do not hesitate to contact me. Thank you.

Very truly yours,

HENDREN AND ANDRAE, L.L.C.

Richard S. Brownlee, III

RSB\sa
Enclosures
Public Counsel
General Counsel
All Counsel of Record
Melissa Randol
Louie R. Ervin
Robert McWilliams

FILED[3]

MAR 17 2003

Missouri Public
Service Commission

Exh. No. __________
Louie R. Ervin
Supplemental Direct Testimony
MSBA
Case No, GT-2003-0032

BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Tariff Filing of Laclede Gas Company	**CASE NO.**	**GT-2003-0032**
	TARIFF NO.	JG-2003-0048

SUPPLEMENTAL DIRECT TESTIMONY

OF

LOUIE R. ERVIN

Exh. No. ________

Louie R. Ervin
Supplemental Direct Testimony
MSBA
Case No, GT-2003-0032

BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Tariff Filing of Laclede Gas Company	**CASE NO.** TARIFF NO.	**GT-2003-0032** JG-2003-0048

SUPPLEMENTAL DIRECT TESTIMONY OF LOUIE R. ERVIN

Q. Please state your name and business address.

A. My name is Louie R. Ervin and my business address is 150 First Avenue, NE, Suite 300, Cedar Rapids, Iowa 52401.

Q. By whom are you presently employed and in what capacity?

A. I am a partner in the firm of Latham & Associates, Inc., Cedar Rapids, Iowa and hold the position of Executive Vice President.

Q. Please describe your business, educational background and experience as a utility professional and expert witness.

A. My energy consulting business, academic background and professional experiences are included as Exhibit ____(LRE-1).

Q. On whose behalf do you present this testimony?

A. This testimony is prepared on behalf of the Missouri School Boards Association (MSBA) and the Cooperating School Districts of St. Louis (CSD).

Q. Please describe MSBA's and CSD's interest in this docket.

A. MSBA's membership consists of approximately 400 public school districts with approximately 2,000 individual school locations throughout the state of Missouri. CSD's membership consists of 51 school districts with 900 individual school locations in the St. Louis area. The MSBA and the CSD are not-for-profit corporations, which serve as trade associations for the member school districts. MSBA and CSD sponsor and operate joint purchasing of numerous school commodities, including transported natural gas.

Q. What is the history of the MSBA and CSD aggregate natural gas purchasing program for schools?

A. Beginning in 1999, the MSBA and the CSD began jointly sponsoring aggregate natural gas purchasing for Missouri schools. The MSBA and CSD aggregate purchasing program is very similar to school programs in Kansas, Iowa and Illinois, with one major difference. Schools in adjacent states have natural gas utility transportation tariffs that are designed for smaller users. Missouri transportation tariffs, for the most part, were designed in the 1980s for the industrial and larger user. Over the past few years, school natural gas purchasing programs in adjacent states grew significantly, but utility natural gas transportation tariffs in Missouri were not conducive to small volume customers such as schools.

Q. Please explain what is meant by natural gas transportation and how transportation tariff differs from normal utility natural gas sales service.

A. Natural gas sales service customers purchase a "bundled" service from gas corporations, such as Laclede, which includes a bundle of three basic components: (1) the commodity from natural gas producers, brokers or wholesalers, (2) contracted interstate pipeline capacity to deliver the commodity from producing regions to the distribution system of the local gas corporation, such as Laclede, and (3) delivery and administrative services through the Laclede-type distribution system to the end-use retail customer meter. On the other hand, unbundled natural gas transportation tariffs provide that customers can contract directly with third-party suppliers for traded natural gas commodity at market prices, including interstate pipeline delivery to the Laclede-type local utility system. Local utility transportation tariffs, including for Laclede, sets forth charges for delivery through its distribution system to the end-use customer's meter. Transportation service is an "unbundled" service and sales service is a "bundled service."

Q. Have large industrial and commercial consumers switched from utility bundled sales service to unbundled utility transportation service?

A. Yes. Large industrial and commercial natural gas users regularly purchase third-party natural gas supply, including interstate pipeline delivery to the Laclede system and Laclede delivers the customer-owned supply to the meter under its transportation service tariff.

Q. How long have unbundled transportation tariffs been offered to end-use customers?

A. Transportation tariffs were designed for and made available to large industrial and commercial type end-users in the middle to late 1980s. Around various parts of the country, including Kansas, Iowa and Illinois, transportation tariffs were designed for small-use end-users in the 1990s.

Q. Are Missouri public schools large natural gas users, and do schools take service under Laclede and other Missouri utility transportation tariffs?

A. In aggregate, Missouri schools are very large consumers of natural gas. Missouri schools statewide will pay an estimated $50,000,000 for natural gas this fiscal year. However, except for a few schools in the Kansas City and Columbia area, no individual school building could effectively transport under tariffs that were designed in the 1980s for large industrial and commercial type consumers. No schools are taking service under the Laclede transportation tariff. Not a single school building in the St. Louis area is individually large enough to take service under Laclede's transportation tariff. Not even the largest Kansas City and Columbia area schools, which have been taking transportation service under the Missouri Gas Energy (MGE) and AmerenUE transportation tariffs since the late 1990s, would be able to effectively take transportation service under the Laclede tariff.

Q. Could you describe the legislative history behind the experimental school natural gas aggregate purchasing program?

A. Beginning as early as 1999, the MSBA and CSD made requests to every Missouri investor-owned utility, except for Fidelity and SMG, to file experimental small volume natural gas transportation tariffs for schools with the Commission. A year or two ago, Ameren filed and received Commission approval for a tariff change, which allowed smaller users to pay a monthly telemetry charge in lieu of an initial expenditure. About the same time, the Missouri Public Service Company, now Aquila, received Commission approval for a small volume transportation tariff. However, neither the Ameren nor the Aquila tariffs fully met the needs of Missouri schools for small volume aggregated transportation service. The MGE large volume tariff was prohibitive for all but the largest school facilities. Laclede never took any action toward the school request for a small volume transportation tariff. Last year, the MSBA and CSD proposed legislation and the Missouri 91st General Assembly, 2nd Regular Session, passed CCS for SCS for HB 1402 which provided, inter alia, that gas corporations certificated by the Missouri Public Service Commission are required to file experimental tariffs, which allow the aggregate combination of natural gas supply to eligible Missouri schools under the experimental tariffs.

Q. Please provide a brief history of the Missouri school experimental program progress under the new law?

A. Each Missouri investor-owned gas corporation subject to Commission rate regulation filed small volume tariffs for a school aggregate purchasing experimental program and received approval from the Commission to make these experimental tariffs effective November 1, 2002. The MSBA and CSD program now has school participation in the experimental program on the systems of MGE, AmerenUE, Aquila and Atmos. No schools on the Laclede system are currently participating in the aggregate natural gas purchasing program because of an outstanding issue regarding interstate pipeline capacity.

Q. Please explain the interstate pipeline capacity issue with Laclede.

A. Laclede is insisting that it release contracted pipeline capacity to schools on a take-or-pay basis, at prices exceeding what Laclede's large industrial and commercial transport customers pay, at 150% of the average daily consumption in the peak usage month during the 24 months ending September 30, 2002, for the entire period of the experimental program through June 30, 2005. This means:

1. Schools in the experimental transportation program have to take Laclede's contracted pipeline capacity when no large industrial or commercial customer under Laclede transportation tariff has to take any Laclede released pipeline capacity.

2. Large industrial or commercial customers under Laclede's transportation tariff are free to purchase pipeline capacity from third-parties at market prices, but Laclede is insisting that schools pay above market prices for pipeline capacity;
3. Large industrial or commercial customers under Laclede's transportation tariff do not have to take Laclede's released pipeline capacity for a single day, but Laclede insists that schools take Laclede's capacity through June 30, 2005.
4. Large industrial or commercial customers under Laclede's transportation tariff do not have any level of pipeline capacity mandated, but Laclede's experimental tariff requires schools to take Laclede pipeline capacity at 150% of the average daily consumption in the peak usage month during the 24 months ending September 30, 2002, which is a period that includes near all-time low temperatures.

The net effect of the way Laclede insists on handling interstate pipeline capacity is to deny St. Louis area schools from participating in the experimental program as established by Section 393.310.

Q Do any other Missouri gas corporation tariffs for the experimental school transportation program require schools to take released pipeline capacity through June 30, 2005?

A. No. Because the experimental program was to begin late last fall after utilities presumably had finalized plans for this past winter, MSBA and CSD agreed to stipulations with all Missouri gas corporations, except for Laclede, to accept utility released pipeline capacity for up to the first year of the program, though October 31, 2003. A stipulation was made with Laclede whereby schools participating in the experimental program would be obligated to take capacity through May 31, 2003. Regarding pipeline capacity subsequent to May 31, 2003, the

Laclede stipulation provides that the parties shall file either their joint recommendation or, if an agreement is not reached, their individual recommendations regarding such matters, by March 17, 2003 together with testimony explaining why such revisions are appropriate and consistent with Section 393.310. The schools and Laclede have not reached a joint recommendation regarding pipeline capacity. The purpose of my testimony is to set forth recommendations to the Commission regarding pipeline capacity.

Q. How many schools on the Laclede system have signed up to participate in the MSBA and CSD program and how many are currently participating?

A. Twenty six school districts, representing about 500 natural gas accounts on the Laclede system, have passed resolutions to participate in the experimental aggregate purchasing program or have sent meter data and requested information in anticipation of passing resolutions. No schools served by Laclede are currently participating in the experimental program because Laclede's position on pipeline capacity is too economically burdensome for St. Louis area schools.

Q. In your opinion, what amount and term of pipeline capacity release by gas corporations is required by Section 393.310?

A. In my opinion, the legislature intended that gas corporations provide experimental tariffs for schools that operate very much like large volume transportation tariffs, except as provided in Section 393.310 to address small volume transportation differences. In my opinion, Section 393.310 intended that pipeline capacity under small volume school transportation tariffs be treated in exactly the same manner as in large volume transportation tariffs. Laclede's large volume transportation tariff does not require customers to take any level of Laclede contracted interstate pipeline capacity for any period and the same is intended for small volume experimental school tariffs.

Q. Please explain your interpretation of Section 393.310 Paragraphs 4. (1), (2) and (3).

A. MSBA Exhibit ____ (LRE-2) is the language of Section 393.310. I interpret the legislature's intent of Paragraphs 4. (1), (2) and (3) to provide for the aggregate purchasing of natural gas supplies and pipeline transportation either through a not-for-profit association under Paragraph (1), or as resale from the gas corporation at it cost of purchasing of gas supplies and transportation under Paragraph (2), and under Paragraph (1) specifies that telemetry shall not be required, except for individual meters of over one hundred thousand therms annually. That is, in my opinion, Paragraphs 4. (1), (2) and (3) of Section 393.310 simply recognizes that the experimental program must provide for either transportation service through a not-for-profit school association in a similar manner as large volume transportation service, or by resale at the gas corporation's cost, but without the requirement for telemetry.

Q. Please explain what is meant for telemetry and why it is not required, except for individual meters of over one hundred thousand therms annually.

A. Telemetry is more expensive metering equipped with communication to allow the utility to remotely monitor usage. Telemetry is typically required for large transportation customers because large users, particularly industrial process natural gas users, could potentially have unpredictable large daily swings in usage or a mismatch the amount of third-party delivered volumes versus actual usage, which may impact utility system operations. Daily usage for small volume transportation customers is typically predicted with good precision using a weather algorithm and thus small volume transportation tariffs normally allow continued use of the same less expensive sales service type meter without a telecommunication connection.

Q. Please explain your interpretation of Section 393.310 Paragraph 5 with regard to the phrase "will not have any negative financial impact on the gas corporation, its other customers or local taxing districts" and, in your opinion, does this phrase in any way relate to the interstate pipeline capacity issue with Laclede?

A. In my opinion, the legislature did not intend that a gas corporation or its other customers pay the gas corporation's incremental administrative costs of aggregating school purchases for resale or for balancing school usage. Section 393.310, Paragraph 4. (2) specifically specifies that the commission shall determine the aggregation and balancing fee that the gas corporation can charge schools for its administrative cost of aggregating and balancing school purchases; and, an initial fee to get the program started is set at not to exceed four-tenths of one cent per therm delivered. In my opinion, the Paragraph 5 phrase "will not have any negative financial impact on the gas corporation has nothing to do with interstate pipeline capacity, but, instead refers to ensuring the gas corporation's incremental administrative costs of aggregating school purchases for resale or for balancing school usage, is paid by participant schools and not the gas corporation or other customers.

Q. Has the Laclede tariff, in your opinion, addressed the matter of no negative financial impact on local taxing districts and is this an issue?

A. Yes, the Laclede tariff, in my opinion, has adequately addressed the matter of ensuring that local taxing districts continue to receive local franchise taxes on transportation service under this experimental program. While large commercial and industrial transportation customers may not be required to pay local franchise taxes, schools will continue to pay local franchise taxes under the Laclede experimental school transportation tariff.

Q. With regard to interstate pipeline transportation capacity, how do you interpret Section 393.310, Paragraph 4 (1): "*Provide for the aggregate purchasing of natural gas supplies and pipeline transportation services on behalf of eligible school entities in accordance with aggregate purchasing contracts negotiated by and through a not-for-profit school association?*"

A. I interpret Section 393.310, Paragraph 4 (1) to require a gas corporation's tariffs to allow the school association to negotiate both natural gas supply and transportation contracts with third parties in the same manner as for large transportation customers. Section 393.310 does not, in my opinion, require participating school customers of Laclede to take or pay for any pipeline capacity for any period. Any other interpretation would imply that the legislature intended that schools be unfavorably discriminated against relative to Laclede large industrial and commercial transportation customers. If schools were required to take and pay for Laclede pipeline capacity for the entire experimental program period at prices in excess of capacity market prices, the fundamental legislative intent of experimenting with small volume transportation would be totally undermined and would be totally counter to all small volume tariffs that the Commission approved for all other Missouri gas corporations and have been in effect for the past several years in at least Kansas, Iowa and Illinois.

Q. What are the amount and term of pipeline capacity obligations under the Laclede large volume transportation tariff for industrial and commercial customers?

A. Laclede's large industrial and commercial customers have no amount of capacity obligation for any term.

Q. Why did the schools stipulate to other utility tariffs with initial year pipeline capacity requirements?

A. While schools should not be discriminated against relative to other large transportation customers and should not be obligated to take any amount of capacity for any period, they understand that a start date for the experimental program just before last winter could be a concern for utilities that had already firmed-up winter plans. Schools also agree with Staff witness Imhoff as he pointed out in his original testimony in this docket on Page 2 at Line 22: "Capacity currently used to supply the participating schools should be made available, ***in a workable manner***, to the school aggregator participating in the program consistent with the requirements of section 393/310 RSMo." (Italics and bold were added for emphasis.) I believe the Commission-approved stipulations for Missouri gas corporations, other than for Laclede, are workable with regard to pipeline capacity for the initial year. Other Missouri gas corporation tariffs provide that pipeline capacity be made available for the program duration but there is no obligation for schools to take or pay for any pipeline capacity after the first program year ending October 31, 2003.

Q. What is meant by "balancing" and why, in your opinion, would Section 393.310 prescribe in part for balancing?

A. Balancing is a common industry term to recognize the difference between: (1) the volume of natural gas delivered to the utility by a third-party supplier for the account(s) of transportation customers and (2) the actual volumes consumed by the transportation customer. For large transportation customers with telemetry, volumes delivered and consumed can be matched and a daily imbalance can be determined. For small transportation customers without telemetry, meters, are read monthly as is the case for sales-service customers, and a monthly imbalance is determined. If the Laclede Delivery Schedule weather-based algorithm is off a little in precision, primarily because of the difference between projected and actual weather, or if the school supplier does not precisely follow the schedule every day of the month, there will be some unknown and presumably small imbalance. The utility system will absorb the daily imbalance for both large and small transportation customers. If the imbalances are outside Laclede tariff tolerance, the schools under the Laclede experimental small volume tariff are subject to penalties equivalent to penalties in the Laclede large volume tariff. If the schools are out of imbalance tolerance too often, they can be forced out of the experiment and back to sales service. A large group of schools will have diversity, but still, within the Laclede experimental tariff specified imbalance tolerance, the utility will absorb small imbalances for the aggregated group and are to be compensated for this monthly imbalance service via the aggregation and balancing fee determined by the Commission.

Q. Has Laclede provided the Association with a temperature-based equation or "Delivery Schedule" to ensure school deliveries are reasonably balanced.

A. To my knowledge, Laclede has not provided the algorithm. If it has not already been provided, we request that the Commission's order in this docket require Laclede to provide the Delivery Schedule algorithm to the Association.

Q. Please explain how utilities go about releasing contracted pipeline capacity.

A. Utilities contract for interstate pipeline capacity for firm sales service customers. Transportation customers typically purchase gas supply from third-party marketers, which contract for their own interstate pipeline capacity and arrange for commodity deliveries for the customer to the utility system at points called "town border stations" or "city gates." When a utility sales-customer switches to transportation service, the utility may have "freed-up" interstate pipeline capacity. Because large customers can and do switch from and to sales and transportation service, prudent utility planning for pipeline capacity requirements will factor in tolerance for sales growth or loss, switching of sales customers to transportation service and conversely. If the utility's forecast for pipeline capacity requirements show the utility will have 'freed-up" pipeline capacity, the utility will typically release pipeline capacity to the market for purchase by others. The Federal Energy Regulatory Commission (FERC) has regulatory jurisdiction over interstate pipeline tariffs, which specify procedures for electronically posting capacity for release. To avoid holding excess pipeline capacity when customers switch on short notice from sales to transportation service, some utility tariffs require the customer to give a one-year notice before switching, or have the customer take released utility pipeline capacity for up to one year, or to pay the utility stranded capacity costs for up to one year. Some utilities want the capacity released permanently and others prefer temporary releases, depending on anticipated future system requirements. I know of no utility that requires a customer switching to transportation service to be obligated financially or otherwise for utility pipeline capacity for more than one year. As previously pointed out, the Laclede large volume transportation tariff has no customer obligation for pipeline capacity.

Q. What is your understanding of Laclede's insistence that schools take or pay for Laclede's pipeline capacity at above market prices through June 30, 2005?

A. I understand that Laclede feels it will have excess pipeline capacity associated with St. Louis area schools switching to its experimental transportation tariff and it does not want to follow normal transportation practice of releasing the capacity to the market, even on a temporary recallable basis. Instead, I understand that Laclede insists that it release 150% of the average daily consumption in the peak usage month during the 24 months ending September 30, 2002 to St. Louis area schools through June 30, 2005.

Q. If schools switch from sales service to transportation service, will Laclede, in your opinion, be stuck with excess pipeline capacity?

A. No. First, the very small size of this experimental program effectively ensures that Laclede will not be stuck with excess pipeline capacity. Further, Laclede can release pipeline capacity to, or purchase from, the market through electronic bulletin board procedures as specified in FERC-approved pipeline tariffs. In fact, the schools have offered to take Laclede's released pipeline capacity at the market-clearing price resulting from the FERC-approved electronic posting procedures. Utilities regularly use the FERC-approved procedure to release capacity. Laclede can release any potential "freed-up" capacity for a term that terminates with the experimental program, which enables Laclede to recapture released capacity.

Q. Is Laclede or other customers negatively financially impacted by Laclede releasing "free-up" capacity?

A. No. As stated at Page 6 of Laclede 2000 Annual Report: ***"We release firm transportation capacity to third parties when we do not need this capacity for our own customers, an opportunity that provides benefits to both our customers and our shareholders."*** (Bold and italics were added for emphasis.)

Q. If all St. Louis area public schools that have shown interest in the experimental program were to participate, what percentage of Laclede's total annual delivered volumes would those schools represent?

A. At Page 38 of Laclede's 2001 Annual Report, system therms sold and transported in that year were 1,073,619,000 therms. If all St. Louis area public schools that have shown an interest in participating in the experimental program were to participate, those schools would represent about 2% to 3% of Laclede's total annual delivered volumes.

Q. On a peak day basis, what percentage would those same schools represent of Laclede's total system peak day capacity requirement?

A. If all St. Louis area public schools that have shown an interest in participating in the experimental program were to participate, those schools would represent about 2% to 3% of Laclede's total peak day load.

Q. How does the schools 2% to 3% of Laclede peak load compare to normal annual peak load variations for which Laclede must plan its system?

A. Laclede's response to MSBA Data Request no. 51 shows its 1998, 1999, 2000, 2001 and 2002 system peak day loads were 863.7; 1031.2; 825.8; 962.9; and 847.7 MMCF. Increases and decreases in Laclede's peak day from the previous year for 1999, 2000, 2001 and 2002 were + 19%, -20%, +17%, and +12%, respectively. Obviously, Laclede must plan its supply and pipeline capacity for wide swings in the range of + or – 20%. The school experimental program is intended to be a small-scale test of transportation service for small users. The school loads are relatively small, well within Laclede's system capacity planning tolerance, and will not cause any appreciable negative financial impact on Laclede or other customers.

Q. Must gas corporations, like Laclede, regularly plan for peak load variations due to weather, customer growth and customer switching to and from sales and transportation service?

A. Yes. Gas corporations, including Laclede, must have some tolerance, or flexibility, to meet system load variations. Gas corporations, including Laclede have methods to deal with uncertainty of future peak day loads. Releasing pipeline capacity to and purchasing released pipeline capacity from the market is only one method of building in system flexibility.

Q. Has Laclede been experiencing customer growth?

A. Yes. Laclede's annual reports from 1998 through 2001 make numerous mentions of customer growth. The following are a few references in the Laclede 2001 Annual Report:

Page 8: "Overall, Laclede gas delivered 1,118.7 million therms of natural gas in fiscal year 2001 compared with 1,035.2 million therms the previous year."

Pages 9 and 10: Laclede discusses maturity of it traditional market area, "indications of rebirth of the central city area", and metropolitan area expansion "to the north, west and south." Laclede also discusses marketing programs to increase sales and observed that "Our commercial and industrial markets continue to grow steadily," and "redevelopment and residential growth of the downtown St. Louis area has sustained its momentum with a mix of new and rehabilitation projects." Other cited growth examples include: "A.G. Edwards continues to expand its corporate headquarters, "natural gas heats the three-story, 27,000-square-foot Pulitzer Foundation for the Arts building" and "the newly constructed Donald Danforth Plant Science Center is attracting not only local, but worldwide attention." "The Lambert-St. Louis International Airport parking service soon will begin operating a fleet of new Ford E-Series Cutaway CNG shuttle vans to serve long-term parkers." (CNG stands for compressed natural gas.)

Page 11: "Laclede is a recognized leader in development of natural gas cooling. This year, we continued to add new desiccant dehumidification systems to our market base, and for the fifth consecutive year, these systems contributed measurably to the growth of commercial consumption."

Page 35: "In January 2000, Laclede Energy Resources, Inc. (LER) finalized a multi-year arrangement with Utilicorp United, Inc. (Utilicorp) to provide a significant portion of the gas supply for a natural gas fired power plant at Pleasant Hill, Missouri. The four-year agreement went into effect June 1, 2001. LER will provide Utilicorp with up to 5 billion cubic feet of natural gas annually-the equivalent of about 5% of the annual send out of Laclede Gas Company in a normal year..."

Q. How do the additional sales of natural gas to the one new Utilicorp power plant compare to annual usage of about 500 school facilities that are waiting to participate in the experimental school program?

A. The one new power plant will use roughly twice the annual consumption of 500 school facilities. Whether or not, Laclede Gas Company released pipeline capacity to its affiliate LER to serve the new plant, it demonstrates that there is a market demand for pipeline capacity in the Laclede service area and that Laclede should not have any trouble finding a buyer in the market for 2%-3% of its pipeline capacity.

Q. On which pipelines has Laclede contracted capacity for delivery to its distribution system?

A. Per Laclede's response to MSBA Data Request no. 52, in 2002 Laclede contracted for 485.0 MMCF on the Mississippi River Transmission (MRT), 27.2 MMCF on the Williams system (now), and 52.5 MMCF on the Missouri Pipeline, for a total of 564.7 MMCF of pipeline capacity. Laclede's capacity on either the Williams or the Missouri pipeline is more than sufficient to meet the peak day load of the school experimental program.

Q. Has Laclede negotiated pipeline capacity contracts with flexibility for it to increase or decrease contracted capacity amounts by as much as 2% to 3% f its peak day requirements?

A. Despite MSBA Data Request no. 33 request for copies of Laclede pipeline capacity contracts, Laclede has not provided them. Instead of providing the requested contacts with terms regarding Laclede's ability to increase or decrease pipeline capacity, Laclede referred to summary information on each pipeline's web site, which really does not provide an answer to the questions of Laclede's flexibility with regard to pipeline capacity. We do know that the majority of Laclede's capacity is on the MRT pipeline and Laclede has said it has no flexibility in its MRT contract. However, my experience is that a change in capacity on an interstate pipeline is a matter that can be taken to the FERC for determination. With regard to Williams and Missouri pipelines, Laclede implied that it does have some flexibility, but, in its responses to MSBA Data Requests nos. 43 and 44, Laclede refused to reduce its capacity on these pipelines because it claims potential system pressure problems on the west part of its system under peak conditions.

Q. Will Laclede temporarily release capacity on the Williams or Missouri pipelines for the school experimental program?

A. No. When asked in MSBA Data Request no. 47, whether Laclede would release some of its capacity on the Williams or Missouri pipelines on a temporary basis for the school experimental program, Laclede said it would not because it must insure that firm supply contracts are in place with reliable suppliers upstream on these pipelines.

Q. Will Laclede agree to temporarily release capacity on the Williams or Missouri pipelines for the school experimental program if the schools agree to use the same suppliers as Laclede, or use the Laclede's criteria for selecting its suppliers, and the schools agree to

schedule maximum deliveries to the Laclede system on peak or critical days when notified by Laclede to support pressure on the west part of the Laclede system?

A. No. When asked, Laclede' response to MSBA Data Request nos. 47 and 48 was: "No. Because of the critical nature of this capacity during peak conditions it is important for Laclede to maintain this capacity to insure(sic) that firm gas supply contracts are in place with reliable suppliers upstream on these pipelines. Failure of MSBA to provide gas supplies on peak or critical days could severely impact Laclede's ability to serve its other customers on such critical days."

Q. Did Laclede provide the MSBA with a proposed pipeline delivery point and a list of suppliers that are already transporting natural gas to large customers on the Laclede system and did MSBA bid its supply for the experimental program to these suppliers.

A. Yes, Laclede provided its preferred pipeline delivery point in response to Data Request no. 10 and, in response to MSBA Data Request no. 15, Laclede provided a list of suppliers already doing business with transport customers on the Laclede system. Despite MSBA having received its low-bid from a gas supplier on the Laclede list and the supplier was willing to deliver at the Laclede-proposed delivery point, St. Louis area schools have not been able to participate in the experimental program because the parties have not been able to agree on the pipeline capacity issue.

Q. You stated earlier that the Laclede system peak day load in 2002 was 847.7 MMCF, which is significantly higher than the total Laclede pipeline capacity of 564.7 MMCF in 2002. Is Laclede pipeline capacity short?

A. In addition to pipeline capacity to meet it peak day load, Laclede has on-system storage capacity, peak-shaving plants and interruptible customers to help it meet its peak day load.

Laclede can inject gas into storage during lower demand periods and withdraw it during high demand periods. Similarly, Laclede can inject a mixture of air and propane from its peak-shaving plants into the system to supplement peak day gas supply. Interruption of interruptible customers is another way Laclede can manage to meet its peak day loads. While I have not attempted to determine whether Laclede is pipeline capacity short, it is apparent that Laclede has much more flexibility in its system than is required to accommodate the legislatively mandated experimental school transportation program. Laclede explains at Page 12 of its 2001 Annual Report: "About 77% of this peak day demand was met with natural gas transported to St. Louis through MRT, MPC, and Williams transportation systems, and 23% was met from Laclede's on-system storage and peak shaving resources."

Q. Please summarize your testimony and recommendations to the Commission.

A. Section 393.310 requires Laclede to file tariffs that provide natural gas supply and transportation service to schools on an experimental basis through June 30, 2005. Section 393.310 can only reasonably be interpreted to provide schools with transportation service on terms consistent with Laclede transportation tariffs for large volume customers, except as provided by Section 393.310. In recognition that schools are relatively small users with predictable weather-sensitive loads, Section 393.310 provides that no telemetry or special metering be required. To prevent any negative financial impact to Laclede or other customers, Section 393.310 provides for an aggregation and balancing charge to cover costs of administering the school aggregation program and costs of balancing small variations between actual school usage and gas supply delivered for schools on a projected basis. Section 393.310 establishes the first year aggregation and balancing charge at four-tenths of one cent per therm delivered and thereafter as determined by the commission. Laclede's proposed tariff generally meets requirements of Section 393.310 except with regard to treatment of interstate pipeline capacity. Regarding interstate pipeline capacity, Laclede's proposed experimental school transportation tariff discriminates against schools relative to its large volume transportation tariff. The Laclede large volume transportation tariff allows customers to access pipeline capacity as needed, with no quantity or period required, and at market prices through FERC-approved procedures specified in interstate pipeline tariffs. Laclede's proposed experimental school transportation tariff requires school to take and pay for Laclede pipeline capacity throughout the full term of the experimental program, June 30, 2005, at above market prices, and in an amount equal to 150% of average daily consumption of participating schools in the peak usage month during the 24 months ending September 30, 2002, which includes exceptionally cold period months during the 2000-2001 winter. Laclede has system flexibility of more than 2% to 3% of its peak day demand to accommodate the experimental school program without negative financial impact to Laclede or to its other customers. Without changes in the Laclede tariff to treat schools like large volume transportation customers with regard to interstate pipeline capacity, St. Louis area schools will effectively be denied participation in a natural gas aggregate purchasing and transportation program mandated by Section 319.310.

Q. What revisions to the Laclede tariff do you recommend?

Exhibit______ (LRE-3) consists of the Laclede EXPERIMENTAL SCHOOL DISTRICT AGGREGATION SERVICE tariff with MSBA and CSD recommended revisions. For each Sheet Nos. 41 through 45, July 1, 2003 is proposed for Date of Issue and Date Effective. Other proposed text changes are summarized as follows:

Sheet No. 41, Paragraph A: Insertions (1) and (2) are recommended to clarify that Eligible School Entities (ESEs) can (1) take service under the experimental tariff with supply and transportation requirements aggregated by the school association, or (2) through resell to the Company for delivery.

Sheet No. 42, Paragraph E: Text changes are recommended to provide that schools, after the effective date of the revised tariff, are only obligated to take and pay for pipeline capacity from Laclede as requested at market prices in accordance with pipeline FERC-approved tariff procedure.

Sheet No. 43, Paragraph E (continued): References to pre-May 31, 2003 matters regarding pipeline capacity are recommended for deletion.

Sheet No. 44 and 45: No changes, other than the issue and effective dates, are recommended.

Q. Does that conclude your testimony?

A. Yes.

LATHAM AND ASSOCIATES SERVICES PROVIDED

Latham & Associates, Inc. (L&A) was formed in 1995 to provide an array of energy-related advisory services, strategic planning, opportunity assessment and engineering economic/financial analysis to large commercial and industrial energy users, educational institutions and associations, and electric and gas utilities. Robert Latham and Louie Ervin own L&A. Both have extensive executive experience in the energy industry. Headquarters are in Cedar Rapids, Iowa.

The restructuring of the electric and gas industries and the price volatility of energy markets continue to create significant opportunities for competitive energy prices and utilization solutions with substantial current and longer-term client benefits. L&A delivers the expertise to fully understand these energy market opportunities, identify creative solutions for clients, and assist in the implementation of strategic choices.

L&A currently provides energy market advisory, technical and advocacy services to a group of over thirty industrial clients, five midwest state school board associations, major public and private educational institutions and state associations, associations of smaller commercial and industrial businesses, and over fifty municipal and rural electric cooperative utilities across Iowa and the upper Midwest. In the Iowa electric choice legislation, L&A is the technical advisor and lead negotiator for the Iowans for Choice in Electricity, the coalition of industrial, educational, commercial and low-income advocacy groups supporting competitive power supply choice. L&A is recognized as an aggregator of and an advocate for major energy purchasers.

SERVICES PROVIDED BY LATHAM & ASSOCIATES

- Energy strategy, procurement and aggregation consultation and implementation
- Oversight of energy procurement for industrial, commercial, municipal and institutional groups
- Regulatory analysis, position development and expert testimony
- Regulatory and legislative process participation
- Pricing strategy and design for electric, natural gas and steam
- Industrial, institutional, and utility strategic analysis and plan development/implementation
- Identification of power supply alternatives and implementation of bidding/negotiation processes
- Transmission alternative development and participation in FERC/state regulatory processes

IMMEDIATE OPPORTUNITIES

- Strategic assessment of power/transmission markets on energy purchasers and groups
- Aggregation of energy customers, agreement negotiations, and continuing oversight
- Market presence development through industrial, commercial and small utility associations
- Review of pricing alternatives and implementation through negotiations
- Identification of strategic partners and opportunities
  Negotiation of power and other energy supply agreements

EXHIBIT

A

RESUME OF PRINCIPAL

Louie R. Ervin, P.E.

Office - Latham & Associates, Inc.
150 First Avenue NE, Suite 300
Cedar Rapids, Iowa 52401-1110

Phone: 319-365-6488
Fax: 319-365-7086
E-mail: ErvinLR@worldnet.att.net

INDUSTRY EXPERIENCE:

- Executive Vice President of Latham & Associates, Inc.
- Licensed Professional Engineer
- Principal responsible for industrial clients representing about 550 mW of electrical load, including the Large Energy Group (an industrial and commercial consumers group in Iowa).
- Board of Directors, Iowan's for Choice in Electricity
- Advisor for implementation and operation of multiple aggregate energy purchasing consortiums in Illinois, Iowa, Kansas, Missouri and Wisconsin.
- Perform engineering and economic generation analysis for industrial and municipal clients.
- Analysis and development of retail electric revenue requirements and rate design for municipal utilities. Develop real time wholesale tariffs for municipal cooperatives.
- Develop energy strategy for industrial and municipal clients.
- Expert witness in federal anti-trust case involving wholesale electric wheeling. Expert witness in Louisiana district court involving wholesale/retail wheeling and potential power sales. In-house expert witness in electric, gas and water rate cases before Federal Energy Regulatory Commission, Missouri Public Service Commission and Iowa Utilities Board.
- Directed a study of the economic impact of Divestiture of IES Utilities Gas Business as part of the Securities and Exchange Commission's merger requirements.
- Responsible for large projects, including construction of transmission and substation facilities.
- Responsible for management of Environmental, Substation Maintenance, Relaying, Metering, Communications and Electric Equipment Repair for large Investor Owned Utility.
- Directed electric operations for Lafayette Utilities System, including responsibility for 360 mW of natural gas fired steam turbine generation and over sight of 50% ownership in a 560 mW coal fired plant.
- Performed consultant/agent functions for 40 municipal and REC utilities in Louisiana and Iowa in the area of energy supply.
- Responsible for power supply, marketing, cogeneration, transmission, distribution, field and commercial operations, stores, transportation, system protection, communications, rates and environmental.
- Primary responsibility for integrating the system and personnel following a $63 million acquisition of an electric utility service territory.
- Negotiated power, steam and natural gas contracts for sales of over $250 million.

- Received *Gas Industries* magazine **1993 Outstanding Manager of the Year Award** for directing a $25,000,000 three-year project, installing over 500 miles of pipe to deliver natural gas to 52 Iowa towns.
- Served on Oversight Teams for Information Systems, Integrated Resource Planning, Economic Development and Environmental.

ACTIVITIES:

- Board member of Chamber and Economic Development Corporation.
- Past Chair of Missouri Valley Electric Association's Rates and Marketing Comm.
- Past member of Southwest Power Pool's Operations Committee.
- Member of Mid-continent Area Power Pool's Environmental Committee.
- Representative to Midwest Ozone Transport Group.
- Past member of Edison Electric Institutes' Metering Committee.
- Member of Edison Electric's Environmental Committee.
- Honor Societies: Beta Gamma Sigma, Tau Beta Pi, and Eta Kappa Nu.

EDUCATION AND PROFESSIONAL:

- BS & MS Electrical Engineering - University of Missouri (with honors)
- MBA - University of Iowa (with highest honors)
- Public Utility Executive Program - University of Michigan
- Edison Electric Institute Rate Program
- Licensed Professional Engineer

EMPLOYMENT:

- Executive Vice President, Latham & Associates, Inc. - July, 1996 - present
- Adjunct Professor, Business Policy/Strategic Management - University of Iowa - 1993-1999
- IES Utilities Company - 1985 -1996:
  Director- Environmental, Industrial Applications & Maintenance Engineering - 8/95
  Director- Industrial Applications and Maintenance Engineering - 1/95
  Director - Operations Planning & Development -1994
  Director - Operations Services and District Manager - 1993
  Manager - Gas Operations & District Manager - 1991
  Manager - Eastern District - 1989
  Manager - Rates & Contracts - 1987
  Manager - Rates - 1985
- Lafayette Utilities System - Lafayette, Louisiana:
  Associate Director - Generation, Engineering & Operations - 1984
  Associate Director - Power Development & Sales - 1983
- Missouri Utilities Company 1978

quarter following the calendar quarter in which the election was held. If a majority of the votes cast on the question by the qualified voters voting thereon are opposed to the question, then the governing body of the political subdivision shall have no power to impose the tax authorized by this section unless and until the governing body of the political subdivision again submits the question to the qualified voters of the political subdivision and such question is approved by a majority of the qualified voters voting on the question.

(L.1998, S.B. No. 627, § A, eff. July 10, 1998.)

393.310. Experimental tariffs applicable to school districts

1. This section shall only apply to gas corporations as defined in section 386.020, RSMo. This section shall not affect any existing laws and shall only apply to the program established pursuant to this section.

2. As used in this section, the following terms mean:

(1) "Aggregate", the combination of natural gas supply and transportation services, including storage, requirements of eligible school entities served through a Missouri gas corporation's delivery system;

(2) "Commission", the Missouri public service commission; and

(3) "Eligible school entity", shall include any seven- director, urban or metropolitan school district as defined pursuant to section 160.011, RSMo, and shall also include, one year after July 11, 2002, and thereafter, any school for elementary or secondary education situated in this state, whether a charter, private, or parochial school or school district.

3. Each Missouri gas corporation shall file with the commission, by August 1, 2002, a set of experimental tariffs applicable the first year to public school districts and applicable to all school districts, whether charter, private, public, or parochial, thereafter.

4. The tariffs required pursuant to subsection 3 of this section shall, at a minimum:

(1) Provide for the aggregate purchasing of natural gas supplies and pipeline transportation services on behalf of eligible school entities in accordance with aggregate purchasing contracts negotiated by and through a not-for-profit school association;

(2) Provide for the resale of such natural gas supplies, including related transportation service costs, to the eligible school entities at the gas corporation's cost of purchasing of such gas supplies and transportation, plus all applicable distribution costs, plus an aggregation and balancing fee to be determined by the commission, not to exceed four-tenths of one cent per therm delivered during the first year; and

(3) Not require telemetry or special metering, except for individual school meters over one hundred thousand therms annually.

5. The commission may suspend the tariff as required pursuant to subsection 3 of this section for a period ending no later than November 1, 2002, and shall approve such tariffs upon finding that implementation of the aggregation program set forth in such tariffs will not have any negative financial impact on the gas corporation, its other customers or local taxing authorities, and that the aggregation charge is sufficient to generate revenue at least equal to all incremental costs caused by the experimental aggregation program.

6. The commission may adopt by order such other procedures not inconsistent with this section which the commission determines are reasonable or necessary to administer the experimental program.

7. This section shall terminate June 30, 2005.

(L.2002, H.B. No. 1402, § A, eff. July 11, 2002.)

Expiration

This section expires by its own terms June 30, 2005.

EXHIBIT

B

Laclede Gas Company — For — Refer to Sheet No. 1
Name of Issuing Corporation or Municipality — Community, Town or City

SCHEDULE OF RATES

EXPERIMENTAL SCHOOL DISTRICT AGGREGATION SERVICE

A. Overview:

Pursuant to Section 393.310 of the RSMo, the Company shall permit eligible school entities ("ESEs"), as defined in such section, to: (1) participate in an experimental program under which the natural gas supply and transportation requirements of participating ESEs are aggregated by a not-for-profit school association ("Association") on behalf of such ESEs; or, (2) the participating ESEs or their agent shall sell such aggregated supplies to the Company, which, in turn, will deliver gas to such ESEs at the rates and charges provided for in the Company's applicable sales service rate schedules.

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B. Availability of Service:

This service shall be available to eligible public school districts only during the first year following the initial effective date of such service ("First Aggregation Year") and to all ESEs thereafter. By September 1 of each year except for the First Aggregation Year, the Association shall provide the Company with an initial list of each school premise, including the address and the Company account number, where such service is to be provided starting the following November. By November 1 the Association may supplement such list so long as the additional projected aggregation volumes resulting from such supplement do not exceed the original projected volumes by more than 20%. The aggregation service for any customers added between September 1 and November 1 shall commence January 1. For the First Aggregation Year only, the Association shall provide the Company with a list of participating customers anytime after the effective date of the Commission's order approving aggregation service.

C. Supply Planning Obligations:

1. By October 1 each year, except for the First Aggregation Year, the Company shall provide the Association with an initial temperature based equation ("Delivery Schedule") which will be used by the Association to determine the daily amount of natural gas the Association must arrange for delivery into the Company's distribution system to meet the gas supply requirements of the participating schools during the subsequent 12 months ending October 31 period ("Aggregation Year"). Such Delivery Schedule shall consist of the sum of the estimated base load and estimated heating load for all of the participating ESEs as such estimated loads are described in Sheet No. R-40 of the Company's tariff. The Normalization Adjustment Factors described in Sheet No. R-40 are set forth in Section K. (The equation will reflect, among other factors, unaccounted-for-gas, as a percentage of sales, that will be determined annually by the Company. The Company shall notify the Association of such percentage by October 1, which percentage shall consist of a base level of 2.5%, adjusted for the departure of actual unaccounted-for-gas from such base level in the previous Actual Cost Adjustment year.) By December 1 the Company shall provide the Association with a revised

DATE OF ISSUE	July 1, 2003 (Month Day Year)	DATE EFFECTIVE	July 1, 2003 (Month Day Year)	
ISSUED BY	R.L.Sherwin, (Name of Officer)	Assistant Vice President, (Title)	720 Olive St.,	St. Louis, MO 63101 (Address)

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EXHIBIT
C

Laclede Gas Company — Name of Issuing Corporation or Municipality
For Refer to Sheet No. 1 — Community, Town or City

SCHEDULE OF RATES

C. Supply Planning Obligations (Continued):

Delivery Schedule which will be used by the Association to determine the daily amount of natural gas the Association must arrange for delivery into the Company's distribution system to meet the gas supply requirements of the participating schools during the subsequent January 1 through October 31 period. For the First Aggregation Year only, the Company shall provide the Association with a Delivery Schedule within twenty business days of receipt of the list of participating customers, after which aggregation service may commence as early as the first day of the month following the provision of such Delivery Schedule.

2. Once per week during the October 15 through April 30 period, the Company shall provide the Association with the forecasted daily temperature for the one week period beginning the next day. Such forecast is to be used by the Association with the Delivery Schedule to determine the daily delivery requirements for such week. If for any business day during the October 15 through April 30 period the Company or the pipeline issues a critical day flow order or period of curtailment, or the Company determines a system operational need, then by 9:00 a.m. of such day the Company shall provide the Association with the applicable following day's (days') forecasted daily temperature that is to be used by the Association with the Delivery Schedule to determine the applicable following day's (days') delivery requirements. The information under this paragraph shall normally be provided by email.

D. Imbalances:

Any difference between the total volumes sold to all of the participating ESEs and the volumes of gas purchased by the Company from the participating ESEs or their agent, after adjusting for the differences that arise from the Company's revenue cycle billing of customers and the calendar month purchases of gas supplies, shall be accumulated in an imbalance account. Any over-delivery or under-delivery of gas in such imbalance account shall be used to ratably increase or reduce the amount of gas the Association must arrange for daily delivery into the Company's distribution system in the subsequent month.

E. Transportation Capacity:

The Company will release to the participating ESEs or their agent firm transportation capacity on Mississippi River Transmission Corporation ("MRT") in an amount requested by the Association, but not to exceed 150% of the average daily consumption of participating ESEs in the peak usage month for each such ESE that occurred during the 24 months ending September 30, 2002 at the in accordance with the capacity release procedures contained in MRT's Federal Energy Regulatory Commission approved tariff. Such capacity shall be released to and taken by the party designated by the Association at market prices determined in accordance with MRT's FERC-approved tariff procedures, for the period requested by the Association up to and through June 30, 2005, on a recallable basis, but will not be recalled by the Company unless requested by the Association and agreed to by the Company, or unless the Association fails to deliver gas supplies in accordance with the Delivery Schedule, adjusted for

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DATE OF ISSUE July 1, 2003 DATE EFFECTIVE July 1, 2003

Laclede Gas Company — For — Refer to Sheet No. 1
Name of Issuing Corporation or Municipality — Community, Town or City

SCHEDULE OF RATES

E. Transportation Capacity (Continued):

any imbalance, as set forth in Section H.

F. Payments By The Customer And The Company:

Each month the Company shall bill each eligible entity for gas metered at each entity's premise at the rates in effect for the sales service rate schedule under which the customer would otherwise receive gas if it were not participating in the program. After the end of each calendar month the participating ESEs or their agent shall invoice the Company for the natural gas purchased and received by the Company from the ESEs or their agent in such calendar month. Such invoice shall be based on the schools' cost of gas including transportation charges and for any other applicable charges necessary to effect delivery of such gas to the Company's city gate. The Company shall remit the amount due to the schools in immediately available funds on or before 10 business days after receipt of the invoice by the Company. At the end of each billing month the Company shall also credit or charge the Association an amount equal to the difference between the total Purchased Gas Adjustment recovery from all of the ESEs (except for the first year of the program during which only Current Purchased Gas Adjustment recovery shall be used) and the sum of the gas cost paid by the Company to the Association for gas delivered to the entities. The gas costs paid shall include the effect of any imbalance volumes and corresponding costs from the previous month, along with a credit for a pro-rata share of the system-wide discount the Company receives from MRT. In addition, the amount credited or charged to the Association shall be adjusted to reflect the Company's retention of a $.004 per therm aggregation and balancing fee on every therm sold plus any additional charges and Incremental Costs as described in Sections H and J below. The Company's periodic remittance of gross receipts taxes to each municipality for the most recent applicable billing period shall be based on billings made to each customer under the applicable sales service rate schedule as adjusted, as soon thereafter in the Company's next such remittance, for the other credits or charges made pursuant to this paragraph.

Deleted: The amount of capacity released through May 31, 2003 shall equal 150% of the average daily consumption of participating ESEs in the peak usage month for each such ESE that occurred during the 24 months ending September 30, 2002. Within 60 days of the effective date of this tariff, the Company, Staff, Association and Office of the Public Counsel shall meet to determine if they can reach a mutually acceptable recommendation for revising the treatment of capacity costs or other program provisions subsequent to May 31, 2003. Such parties shall file either their joint recommendation or, if an agreement is not reached, their individual recommendations regarding such matters, by March 17, 2003 together with testimony explaining why such revisions are appropriate and consistent with the requirements of §393.310. The parties will request that the Commission issue its decision to be effective June 1, 2003.

DATE OF ISSUE July 1, 2003 (Month Day Year) DATE EFFECTIVE July 1, 2003 (Month Day Year)

ISSUED BY R.L. Sherwin, Assistant Vice President, 720 Olive St., St. Louis, MO 63101
Name of Officer — Title — Address

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Laclede Gas Company — For — Refer to Sheet No. 1
Name of Issuing Corporation or Municipality — Community, Town or City

SCHEDULE OF RATES

G. Accounting For Costs On The Company's Books:

The costs of gas supply and transportation services purchased by the Company from the participating ESEs or their agent shall be debited to a separate School District Aggregation account and shall not affect the costs borne by other sales customers. Such account shall also be credited for the PGA recovery from participating customers plus the aforementioned credits or charges to the Association.

H. Failure To Deliver Supplies:

As described above, the Association, on behalf of the ESEs, is obligated to deliver supplies into the Company's distribution system in accordance with the Delivery Schedule, adjusted for any imbalance. In the event such supplies are not so delivered, the Company shall be entitled to convert the ESEs to regular sales service from the Company until the Association is able to resume the delivery of such supplies, and the aggregation service shall be temporarily suspended. The Company may terminate the aggregation service if the Association is unable to resume the delivery of such supplies within five business days, or if the Association has failed to make deliveries in accordance with the Delivery Schedule for a third time within the same Aggregation Year. Except in a period when the Company's Basic Transportation customers are limited to their Daily Scheduled Quantities as described in Section C of the Company's Large Volume Transportation and Sales Service rate schedule, the ESEs shall have the option of paying the Unauthorized Use Charge for any volumes not delivered in accordance with the Delivery Schedule. In the event the ESEs exercise this option, then such event will not be counted as a failure to deliver for purposes of this section. To the extent that the delivery failure occurs during a period when the Company's Basic Transportation customers are limited to their Daily Scheduled Quantities as described in Section C of the Company's Large Volume Transportation and Sales Service rate schedule, the Company shall bill the Association, on behalf of the ESEs, the Unauthorized Use Charge set forth in such section for each therm not delivered in accordance with the Delivery Schedule.

I. Availability Of Individual Customer Billing Data:

The Company shall cooperate fully with the Association in sharing individual customer billing data in order for the Association to make adjustments to the amounts initially paid by each customer to the Company.

J. Incremental Costs:

So as to ensure that this aggregation program will not have any negative impact on the Company or its other customers, and that the charges for the service produce revenues sufficient to recover all incremental costs of the service, charges for this service shall be adjusted, as necessary, to fully

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ISSUED BY R.L. Sherwin, Assistant Vice President, 720 Olive St., St. Louis, MO 63101
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Laclede Gas Company — Name of Issuing Corporation or Municipality
For Refer to Sheet No. 1 — Community, Town or City

SCHEDULE OF RATES

J. Incremental Costs (Continued):

recover the incremental cost of providing the service, to the extent such costs are not otherwise recovered through other provisions of this tariff. Any undercollection shall be recovered over a period of twelve months. Payments for capacity made available by the Company under this program shall not be considered capacity release revenues, and shall be credited to the Deferred Purchase Gas Cost Account, provided that the Company may seek to recover, through an ACA adjustment, any losses in such revenues that the Company experiences as a result of making such capacity available. By March 1 and June 1 of 2003 and by June 1 of 2004, the Company shall submit to the Commission Staff and the Office of Public Counsel information documenting and categorizing the revenues and costs of the program, in sufficient detail to allow Staff and Public Counsel to audit the program and shall provide a final report with the same detail by August 1, 2005.

K. Normalization Adjustment Factors:

The Normalization Adjustment Factors for each month to be used in the derivation of the Delivery Schedule described in Section C above are as follows:

October	1.2
November	1.3
December	1.6
January	1.8
February	1.7
March	1.6
April	1.3
May	1.2
June	1.1
July	1.0
August	1.0
September	1.1

L. Term of Experiment:

Consistent with Section 393.310 of the RSMo, this service will expire June 30, 2005. At the end of the twelve months ended June 30, 2006 period, any customer who participated in the aggregation program during its final year, shall be subject to a one-time separate charge or credit that is intended to offset the flow-through of any ACA or refund credits or charges that were billed to such customer for sales service rendered by the Company during the twelve months ended June 30, 2006 period.

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ISSUED BY R.L. Sherwin, Assistant Vice President, 720 Olive St., St. Louis, MO 63101
Name of Officer — Title — Address