Exhibit No.:	
Issue:	**Weather Mitigation Policy**
Witness:	**Douglas H. Yaeger**
Type of Exhibit:	**Surrebuttal Testimony**
Sponsoring Party:	**Laclede Gas Company**
Case No.:	**GR-2002-356**
Date:	**August 23, 2002**

LACLEDE GAS COMPANY

GR-2002-356

SURREBUTTAL TESTIMONY

OF

DOUGLAS H. YAEGER

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's Tariff to Revise Natural Gas Rate Schedules.	)))	Case No. GR-2002-356

<u>AFFIDAVIT</u>

STATE OF MISSOURI)
) SS.
CITY OF ST. LOUIS)

Douglas H. Yaeger, of lawful age, being first duly sworn, deposes and states:

1. My name is Douglas H. Yaeger. My business address is 720 Olive Street, St. Louis, Missouri 63101; and I am Chairman, President & Chief Executive Officer of Laclede Gas Company.

2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony, consisting of pages 1 to 15, and Schedule No. 1 to 3, inclusive.

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

Douglas H. Yaeger

Douglas H. Yaeger

Subscribed and sworn to before me this 22ND day of August, 2002.

Joyce L. Jansen

JOYCE L. JANSEN
Notary Public — Notary Seal
STATE OF MISSOURI
ST. CHARLES COUNTY
My Commission Expires: July 2, 2005

SURREBUTTAL TESTIMONY OF DOUGLAS H. YAEGER

Q. Please state your name and business address.

A. My name is Douglas H. Yaeger and my business address is 720 Olive Street, St. Louis, Missouri, 63101.

Q. Are you the same Douglas H. Yaeger who previously submitted direct testimony in this case?

A. Yes.

Q. What is the purpose of your surrebuttal testimony?

A. The purpose of my testimony is to respond to the rebuttal testimony of Public Counsel as it relates to the remaining core issue in this case -- namely, the Company's need for a weather mitigation solution that will provide the Company with a reasonable opportunity to obtain the financial resources required to meet its public utility obligations. In connection with this issue, I want to advise the Commission of recent developments that have made this need even more critical.

Q. To what recent developments are you referring?

A. Back in January of this year prior to filing this case, I advised the Commission that the Company was very concerned about its ability to sustain its credit ratings in light of the ongoing deterioration in its financial situation. Among other things, I pointed to the continued impact of extraordinarily warm weather on the Company's recovery of its costs of providing utility service, and the cumulative effects of various regulatory policies on the quantity and quality of the Company's earnings and cash flows. I expressed concern that all of these factors could lead to a ratings downgrade of the Company's debt following an upcoming meeting that had been scheduled with the agencies that rate us. In fact, the need to address this substantial and growing problem was one of the primary reasons the Company filed this rate case in late January.

Q. Did the ratings downgrade materialize?

A. Yes. Unfortunately, as shown on Surrebuttal Schedule DHY-1 to my surrebuttal testimony, the concerns I expressed were realized when, on March 8, 2002, Moody's Investors Service ("Moody's") issued a Ratings Action, changing the outlook on Laclede's debt from stable to negative. The Ratings Action, which affected $409 million of the Company's debt, reported that Laclede's earnings had decreased by over 58% in the first quarter of fiscal 2002, due in large part to temperatures that were 21% warmer than normal this year. Moody's added that the warm weather and insufficient cost-recovery had affected Laclede's cash flows and hampered its operating and debt coverage ratios relative to its peers. In fact, Moody's was quite explicit that Laclede's credit ratings were "being pressured by adverse weather conditions."

On May 2, 2002, Moody's followed up this negative change in outlook when it downgraded the Company's senior secured debt from Aa3 to A1. Again, Moody's cited weather risk among the significant reasons for the downgrade, saying: "Laclede's earnings and cash flow are highly sensitive to weather and Laclede is operating without the benefit of a weather mitigation clause or some other mechanism that would reduce its weather exposure in this area." Despite the downgrade, Moody's continued its negative outlook. A copy of the full text of this Rating Action is attached as Surrebuttal Schedule DHY-2.

Q. Did the Company continue to have concerns that additional downgrades might be forthcoming?

A. Yes. In fact, Company witness James Fallert reiterated those very concerns in his rebuttal testimony filed in this case on August 2, 2002.

Q. And has Moody's recently taken additional action with respect to the Company's debt ratings?

A. Yes. On August 6, 2002, Moody's issued another Ratings Action in which it once again downgraded Laclede Gas Company's debt rating for senior secured debt, this time by an unprecedented two notches additional from A1 to A3. Moody's also downgraded the Company's commercial paper rating to Prime-2. A copy of this Ratings Action is contained in Surrebuttal Schedule DHY-3 to my testimony.

Q. Did Moody's give reasons for this latest action?

A. Yes, and the reasons were similar.

Q. Please explain.

A. Although Moody's acknowledged that the Laclede Group's unregulated underground facility location business had made a positive contribution to its performance, it indicated that the gas utility's operating margins had declined by 19% from 2001 levels. In fact, Moody's stated that the Company's "debt protection measurements have been in a decline for the past 3 years" and that its ratings action reflected the difficulty that Laclede has had in restoring its operating coverages and financial leverage to its historical levels. Once again, Moody's emphasized the impact of the extraordinarily warm weather on Laclede and the absence of a regulatory solution for such impacts. Moody's indicated that it would once again review the Company's ratings in the event regulatory relief was not forthcoming. Moody's stated: "Moody's expects that it will soon resolve its differences with the Missouri Public Service Commission (MPSC) and have weather normalized rates in place for the next winter season. Should this not occur, Moody's would review any potential impact on its debt ratings."

Q. Have any other rating agencies taken similar actions?

A. Yes. On April 24, 2002 Standard & Poor's downgraded the Company's senior secured debt from AA- to A+.

Q. What conclusions do you believe the Commission should draw from these developments?

A. I believe that there is only one reasonable conclusion that can be drawn from these events, namely, that the financial situation facing the Company is critical and poised to potentially deteriorate further and, that most importantly, the time to act on the Company's proposals for addressing the impact of weather on that situation is now. The financial parameters that Laclede has historically relied upon to ensure that it can buy the gas supplies, maintain the distribution system, and do all the other things necessary to provide utility service on a 24 hour/seven days a week basis have deteriorated to the point where a turnaround is absolutely essential. All it would take, and it might not even take that, is one more warm winter without a weather mitigation solution, or some other unanticipated event, to put the Company in a situation where it would only be able to finance its public utility obligations at an unacceptably high cost, if at all.

Q. What are your recommendations to the Commission in light of these events?

A. In view of these considerations, I believe it is imperative that the Commission do two things: approve the Partial Stipulation and Agreement that the parties to this case have recommended for resolving all of the revenue requirement issues in this case *and* approve either the Weather Mitigation Clause ("WMC") or the weather mitigation rate design that the Company has proposed in this case so that they may be implemented by November 1, 2002, before the onset of winter.

Q. Why is it critical for the Commission to take both of these steps?

A. Such action is essential for two reasons. First, while the revenue requirement recommended by the parties would help to provide the financial resources needed to carry out the Company's public utility obligations, it is axiomatic that a large portion of those financial resources may never materialize absent approval of one of the Company's weather mitigation proposals. As Company witness Michael Spotanski demonstrates in his surrebuttal testimony, the Company has repeatedly fallen short of recovering its costs of providing utility service over the past fifteen years because of the effects of weather. By the Commission's own standards, a number of these shortfalls can only be characterized as extraordinary in nature, at times equalling 20% to 25% of the Company's net income. As the investment community has recognized, and as all stakeholders in the regulatory process should know by now, the Company simply cannot continue to absorb these shortfalls and simultaneously continue to provide the level of service that is mandated by the Commission and that our customers have come to expect. Second, Commission approval of one of the weather mitigation proposals offered by the Company in this proceeding would unquestionably be in the best interests of the Company's customers, the Commission and the Company.

Q. How do you respond to the criticisms that have been raised by Staff and Public Counsel regarding the Company's proposed WMC?

A. For the reasons stated in the rebuttal testimony of Company witness Paul Raab and the surrebuttal testimony of Company witnesses Michael Cline and Michael Spotanski, I believe such criticisms are misplaced. Nevertheless, I appreciate the Commission Staff's recognition of the problem faced by the Company and its customers as a result of the impact of weather on the recovery of its fixed costs. I also commend the Staff for its willingness to consider rate design alternatives that would address these weather impacts in a meaningful way. In that same spirit, while Laclede continues to believe that its WMC is an appropriate tool for addressing these impacts, the Company has developed and proposed a weather mitigation rate design alternative that does just that, as set out in the rebuttal testimony of Mr. Cline. We are committed to working with the Staff and any other interested party in implementing this proposal as the preferred mechanism for addressing this problem.

Q. Hasn't Public Counsel also offered a proposal in its rebuttal testimony that would address the weather problem faced by the Company and its customers?

A. Yes. But for the reasons discussed by the Company's other witnesses, we do not believe Public Counsel's proposal is either a meaningful or effective solution to the weather problem.

Q. Please explain.

A. It is my understanding that Public Counsel's proposal would eliminate less than 25% of the effects of weather. In the event of an abnormally warm winter, such a result would still leave the Company exposed to millions and millions of dollars in cost-recovery shortfalls that it could not offset elsewhere. As a result, the proposal would do little to alleviate the kind of downward pressures on the Company's credit ratings that were identified by the August 6 Moody's release. Public Counsel's proposal would be similarly ineffective in protecting customers from over-recoveries in colder than normal weather. At the same time, Public Counsel's gas supply incentive proposal would do little, if anything, to rectify the earnings volatility resulting from these scenarios. What is perhaps most troubling about Public Counsel's proposals, however, are the reasons that Public Counsel has given as to why the Commission should adopt them in lieu of the Company's proposals.

Q. Please explain what you mean.

A. In their rebuttal testimony, the witnesses for Public Counsel have supported their proposed alternative, and denigrated the Company's weather proposals, through a series of arguments that, in my view, reflect a fundamental misunderstanding of the Company's operations and how customers stand to be affected by these respective proposals.

Q. Can you provide some examples of what you mean?

A. Yes. In his rebuttal testimony, Public Counsel witness Kind expresses concern over how customers might react to a weather mitigation solution that levels out the impact of weather on the Company's recovery of its fixed costs. I find these concerns particularly difficult to accept given the adverse customer reactions that have arisen, and are likely to arise in the future, if there is ***not*** a weather mitigation solution.

Q. How has the absence of a weather mitigation solution led to adverse customer reactions in the past?

A. For many years now, the Company has been proposing rate design alternatives that, like the ones proposed in this case, would have substantially lessened any over- or under-recoveries of the Company's distribution costs as a result of weather. One of the most attractive features of these weather mitigation measures is that, compared to the existing rate structure, they limit the Company's earnings when the weather is at its coldest and customers bills are highest, while supporting earnings when the weather is warmer and customer bills are correspondingly lower. In other words, the Company will realize comparatively less income from its customers when the financial burden they face as a result of rising gas prices and increased consumption is greatest and comparatively more income when this burden is less because of declining prices and usage. Absent such mitigation measures, however, both the Commission and the Company are left to deal with the kind of customer misperceptions that occurred during the winter of 2000/2001, when the Company's earnings during the first few months of that winter increased significantly due to record cold weather in November and December. Although this earnings increase was due almost exclusively to a rate design that makes the Company over-recover its actual distribution costs during colder than normal weather, this distinction, to the extent it was recognized at all, was of little consequence to the Company's customers who were simultaneously facing sharply higher gas bills because of rising wholesale gas prices and increased consumption.

Q. What impact would the Company's weather mitigation proposals have on such a situation in the future?

A. Implementation of either the Company's weather mitigation rate design or WMC proposal would virtually eliminate any over-recovery of the Company's distribution costs due to weather in the event sharply colder temperatures were to occur. As a result, Laclede's customers would not be subjected to the scenario of a utility experiencing what appears to be soaring profits at the very time their bills are likely to be increasing because of the impact of such weather on their consumption of gas and wholesale gas prices. In fact, implementation of the Company's proposals would enable Laclede to provide some measure of relief from such higher bills.

Q. What impact would Public Counsel's proposal have?

A. Public Counsel's proposal would result in the Company over-recovering its distribution costs by millions of dollars under such scenario, thereby creating just the opposite effect. There is simply no reason for the Commission to subject itself, the Company or its customers to such a situation in the future given the two options that have been presented in this case for avoiding it.

Q. Isn't Public Counsel witness Kind correct, however, when he states at page 3 of his rebuttal testimony that a more balanced approach toward weather, in the form of a gas supply incentive plan, is necessary to ensure that customers will be protected from the effects of higher gas prices?

A. As the Commission knows, Laclede has for many years now been a strong advocate of using properly designed incentive programs in the gas cost area to benefit customers. And while we are willing to work with Public Counsel and any other party to implement such a program, I have to take issue with any implication that may have been left by Public Counsel's testimony that in seeking a solution to the weather problem, the Company has somehow ignored its customers' need for price protection. Such a suggestion in neither fair nor accurate.

Q. Why is that?

A. It appears that Public Counsel witness Kind may be unaware of the significant steps that Laclede has already taken to provide its customers with price protection for the upcoming winter heating season and beyond. As explained by Laclede witness Mathews, the Company began planning its hedging strategy for the upcoming winter well before the last winter concluded. These efforts included the development of a comprehensive hedging strategy that was formulated throughout the early part of last winter and formally approved by the Company's Board of Directors in March of 2002. This strategy, which was distributed to both the Staff and Public Counsel soon after its adoption, sets out in detail the standards and criteria that the Company would observe in procuring financial instruments for the upcoming winter, with specific guidelines relating to cost, price considerations and volume requirements. The Company's efforts also included the filing of tariff changes, beginning in the summer of 2001, to modify the terms of its Purchased Gas Adjustment ("PGA") Clause in order to accommodate and reflect the impact of this hedging strategy. Once again, Public Counsel was closely involved in the negotiation of these tariff changes, as well as a companion Stipulation and Agreement, and was repeatedly advised that they were being pursued, in part, to accommodate the Company's implementation of a hedging strategy.

Q. And did the Company ultimately implement its hedging strategy?

A. Yes. As soon as we received approval of the required PGA tariff changes and Stipulation language in late February of 2002, the Company took the steps required to begin implementation of its hedging strategy. To date, we have already procured financial protection for a significant portion of our normal winter volumes and expect to achieve additional coverage within the upcoming months. As a result of these efforts, the Company's customers will have substantial protection from any upward price swings that might occur this coming winter.

Q. What significance do you believe these considerations have to the Commission's evaluation of the weather mitigation proposals presented in this case?

A. There is no basis at all for Public Counsel's assertion that Laclede's weather mitigation solution should be rejected by the Commission because a more "balanced" approach toward weather is required that also takes into consideration the need of the Company's customers for price protection. The balance sought by Public Counsel has, in fact, already been achieved by Laclede with the Company's development, approval and aggressive implementation of a comprehensive hedging strategy. Accordingly, if, as Public Counsel suggests, a weather mitigation solution is appropriate so long as it addresses all weather impacts, there should be no barrier to Commission approval of the Company's weather mitigation proposals in this case. In fact, by providing greater financial stability in an environment where the Company's must expend considerable sums to obtain financial instruments for hedging purposes, the Company's weather mitigation approach is far more likely than Public Counsel's to make a positive contribution to these price protection goals. In other words, by helping to preserve and hopefully improve the Company's credit ratings, adoption of a weather mitigation solution will put the Company in a better position to attract the financing required to conduct these hedging activities.

Q. Public Counsel witness Kind also makes several assertions in his rebuttal testimony regarding the Company's weather mitigation proposals and their relationship to the Company's unregulated activities. Do you agree with his observations?

A. No. At page 11 of his rebuttal testimony, Mr. Kind asserts that there is something inconsistent between my statements to the Commission that the Company cannot continue to sustain the kind of financial losses that it has incurred because of the impact of weather on its earnings and my statements to shareholders that we are attempting to spread weather and other risks over a larger enterprise through non-regulated activities. In fact, both statements are entirely consistent.

Q. Please explain.

A. Simply put, the Company is endeavoring to pursue its goal of stabilizing earnings and mitigating the impact of weather on its financial health in both the regulated and unregulated arenas. Indeed, one of the primary considerations in the Laclede Group's acquisition of SM&P, a locator of underground facilities, was the fact that it would contribute greater earnings to the Company during the non-winter months when the earnings from our gas operations are lower and even negative. As I previously mentioned, SM&P has indeed made such a contribution to the Company's earnings picture – a fact that was noted with favor in the Moody's Ratings Action. Far from being inconsistent with its proposals in this case, however, these self-help measures are simply another indication of how seriously the Company takes the concerns that have prompted those proposals and the need to address them through all available avenues. The Company should not be required to and, in any event, cannot rely on its unregulated activities to fix a problem that arises exclusively from its utility operations and that must therefore be resolved in the regulatory arena.

Q. Is Mr. Kind correct when he speculates at page 13 of his rebuttal testimony that the Company's pursuit of its weather mitigation proposals has been prompted by the need to fund its unregulated activities in the wake of the Company's formation of a holding company?

A. No. As I indicated earlier, and as Mr. Kind should know from his previous participation in Laclede rate case proceedings, the Company was pursuing rate design measures to mitigate the impact of weather on its distribution rates for years prior to its decision to form a holding company. In view of this history, it serves no purpose to pretend that the Company's proposals are motivated by anything other than a long-standing commitment to the principal that the impact of weather on the recovery of fixed distribution costs should be reduced. Since Mr. Kind raised the issue, however, I would note that the Company has historically taken a cautious approach to its own unregulated activities as well as deregulation in general.

Q. Please explain what you mean.

A. Unlike a number of other utilities, Laclede has been very careful not to over-commit its financial resources to unregulated ventures or acquisitions that could jeopardize its financial capabilities and we believe that such a strategy has proved its value. And on the utility side of our operations, we have consistently questioned the wisdom and alleged consumer benefits that some have claimed would arise from further deregulation of the natural gas industry in Missouri. We believe that nearly 100 years of experience has shown that enlightened and even-handed regulation is essential in our industry to ensuring that consumers will continue to receive reliable, safe and reasonably priced utility service. For that to remain true, however, it is imperative that such regulation respond, and respond effectively, to chronic problems that threaten the ability of utilities to meet those core obligations, such as the impact of weather on the recovery of costs that the Commission has determined to be just and reasonable and necessary to the provision of utility service. To that end, the Company has submitted two workable weather mitigation proposals in this case, either one of which would accomplish this goal with nothing but upside benefit for the Company's customers. Moreover, out of deference to the concerns that have been raised by both the Staff and Public Counsel regarding the Company's proposed WMC, and Staff's apparent preference for a rate design solution to this problem, the Company is prepared to fully support the weather mitigation rate design alternative presented by Mr. Cline in his rebuttal testimony as the preferred mechanism for accomplishing this goal. For all of these reasons, as well as those discussed by the Company's other witnesses, I urge the Commission to give favorable consideration to this needed measure.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

Moody's Investors Service

Global Credit Research
Rating Action
8 MAR 2002

Rating Action: Laclede Gas Company

MOODY'S CHANGES OUTLOOK OF LACLEDE GAS COMPANY TO NEGATIVE (Aa3 SR. SEC.)

Approximately $409 Million of debt affected

New York, March 08, 2002 -- Moody's Investors Service changed the outlook of Laclede Gas Company's ("Laclede") debt to negative from stable. Ratings affected are: senior secured debt rated Aa3, senior secured shelf rated (P)Aa3, and senior unsecured shelf rated (P)A1 and commercial paper rated P-1.

The negative outlook reflects increased pressure on Laclede's ratings from weakened credit measures and near-term regulatory risk. Laclede is highly sensitive to weather (earnings decreased by over 58% in first quarter 2002, due in large part to temperatures that were 21% warmer than normal this year compared with the record earnings experienced by the Company the previous year on temperatures that were 28% colder than normal) and is operating without the benefit of a weather mitigation clause or some other mechanism that would reduce its weather sensitivity. The company has filed a rate adjustment on January 25th of this year, which includes a request for a weather mitigation clause and seeks resolution of certain financial and accounting matters affecting Laclede's operating cash flows such as the proper treatment of pension benefits and depreciation methodologies. This rate case is still awaiting a decision from the Missouri Public Service Commission ("MPSC") which could take up to 11 months to act upon a rate case. It is uncertain whether Laclede will get sufficient rate relief to restore its credit measures to its historic levels, whatever the MPSC's decision may be. This warm weather and insufficient cost-recovery have affected Laclede's cash flows and hampered its operating and debt coverage ratios relative to its peers.

Laclede is pursuing an appeal in the Circuit Court of Cole County, Mo., of the MPSC's decision to terminate its Gas Supply Incentive Plan (GSIP). The GSIP proposes to share certain cost benefits related to gas procurement and transportation discounts between the consumer and company, in some cases on a 70/30 ratio.

The effect of the protracted regulatory decision-making process of the MPSC combined with the uncertain outcome of appeals before the Missouri court system is contributing additional stress to Laclede's credit rating which is already being pressured by adverse weather conditions.

Laclede Gas Company is a natural gas distribution company serving a territory in eastern Missouri, including St. Louis and is a utility regulated by the MPSC. It is headquartered in St. Louis, Missouri.

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Moody's Investors Service

Global Credit Research
Rating Action
2 MAY 2002

Rating Action: Laclede Gas Company

MOODY'S DOWNGRADES LACLEDE GAS COMPANY'S DEBT RATINGS (SR. SECURED TO A1); CONFIRMS COMMERCIAL PAPER RATING AT PRIME-1

Approximately $360 Million of Laclede Gas Company debt affected Approximately $500 Million of The Laclede Group's Newly-Registered shelf are affected

New York, May 02, 2002 -- Moody's Investors Service downgraded the senior secured ratings of Laclede Gas Company ("Laclede") to A1 (senior unsecured implied A2) while maintaining the commercial paper rating at Prime-1. At the same time it assigned a first-time senior unsecured debt rating of (P)A3 to the $500 million shelf of The Laclede Group, Inc. ("LGI"). The outlook remains negative due to regulatory risk.

Moody's rating action reflects its continuing concerns regarding Laclede's weakened credit measures due to increased earnings pressure and near-term regulatory risk. Laclede's earnings and cash flow are highly sensitive to weather and Laclede is operating without the benefit of a weather mitigation clause or some other mechanism that would reduce its weather exposure in this area. For the six months ended March 31, 2002, utility operating margins were down almost 20% from the comparable period in 2001 while Net Income for the Laclede Group was down 27%. Laclede is also in the midst of various regulatory proceedings with the Missouri Public Service Commission ("MPSC") including a weather mitigation clause in the pending rate case. Laclede expects the rate case to be resolved by the end of calendar year 2002. This past winter's warm weather and insufficiency of regulatory support on the part of its regulators (as exhibited by the rejection of the company's successful Gas Supply Incentive Plan), have affected Laclede's cash flows and further hampered its operating and debt coverage ratios relative to its historical measures and those of its peers.

LGI is a recently-formed holding company for various operating subsidiaries including Laclede and SM&P Utility Resources, Inc., an unregulated company acquired in January of 2002. The A3 rating reflects Moody's approach of rating the parent holding companies of regulated utilities one notch lower than the senior unsecured debt ratings of the regulated entity ("Laclede"). The new parent company rating also takes into account the relative stability of cash flows and investment grade credit quality required for Laclede by the Missouri Public Service Commission in its approval last July for the formation of the LGI parent holding company structure and the relatively marginal impact of the group's unregulated business line.

New ratings for Laclede are as follows: Newly assigned ratings for LGI shelf are as follows:

Senior secured debt - A1;Senior unsecured debt - (P)A3

Senior secured shelf - (P)A1;Subordinated debt and trust preferred securities - (P)Baa1

Senior unsecured shelf - (P)A2.Preferred stock - (P)Baa2

Confirmed ratings are as follows:

Commercial Paper - P-1.

Laclede Gas Company is a natural gas distribution company serving a territory in eastern Missouri, including St. Louis and is a utility regulated by the MPSC. It is the principal operating subsidiary of The Laclede Group, Inc. and is headquartered in St. Louis, Missouri.

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Moody's Investors Service

Global Credit Research
Rating Action
6 AUG 2002

Rating Action: Laclede Gas Company

MOODY'S DOWNGRADES LACLEDE GAS COMPANY'S DEBT RATINGS (SR. SECURED TO A3) AND DOWNGRADES COMMERCIAL PAPER RATING TO P-2; OUTLOOK IS STABLE

Approximately $360 Million of Laclede Gas Company Debt Securities are Affected.

New York, August 06, 2002 -- Moody's Investor's Service downgraded the senior secured ratings of Laclede Gas Company ("Laclede") to A3 (senior unsecured shelf to Baa1) and the commercial paper rating to Prime-2. At the same time it lowered the senior unsecured debt ratings of the $500 million shelf of the Laclede Group, Inc. ("LGI") to (P)Baa2. The outlook is stable.

The rating action reflects the difficulty that Laclede has had in restoring its operating coverages and financial leverage to its historical levels. The company's debt protection measurements have been in a decline for the past 3 years. Its earnings and cash flow remain very sensitive to weather fluctuations and it is still operating without approval of a weather mitigation clause in spite of having experienced weather that was 16% warmer than normal during the past heating season. Moody's expects that it will soon resolve its differences with the Missouri Public Service Commission ("MPSC") and have weather normalized rates in place for the next winter season. Should this not occur, Moody's would review any potential impact on its debt ratings. Among the pending matters before its regulatory commission are the Weather Mitigation Plan, review of GSIP program, recovery consideration for warm weather impact, disallowance of $4.9MM in gas costs, and "Catch Up/Keep Up" Program (a plan designed to help low income customers reduce or eliminate past due amounts). Also pending is a court appeal of the MPSC's decision relative to the calculation of Laclede's depreciation rates.

While the non-regulated business of SM&P made some positive contributions to LGI's performance in the quarter ended June 30th, for the latest nine months the gas utility operating margins declined 19% from 2001 levels. Laclede continues to be burdened by the costs of operating and maintaining its 15,000 mile natural gas distribution and storage system which does not typically generate much revenue during the summer months. These fixed charges of maintaining the system during low revenue seasons when coupled with the absence of regulatory relief for warmer than normal winters, have added to the financial burden on the company.

LGI is a recently-formed holding company for various operating subsidiaries including Laclede and SM&P Utility Resources, Inc., an unregulated company acquired in January of 2002. The Baa2 rating reflects Moody's approach of rating the parent holding companies of regulated utilities one notch lower than the senior unsecured debt ratings of the regulated entity ("Laclede") and the subordinated position of the trust preferreds relative to any senior unsecured debt of the parent company.

The lowered ratings for Laclede and LGI are as follows:

Laclede senior secured debt - to A3 from A1; LGI senior unsecured debt - to (P)Baa2 from (P)A3

Laclede senior secured shelf - to (P)A3 from (P)A1; LGI subordinated debt and trust preferred securities - to (P)Baa3 from (P)Baa1

Laclede senior unsecured shelf - to (P)Baa1 from (P)A2; LGI Preferred stock - to (P)Ba1 from (P)Baa2

Laclede Commercial Paper - to P-2 from P-1.

Laclede Gas Company is a natural gas distribution company serving a territory in eastern Missouri, including St. Louis and is utility regulated by the MPSC. It is the principal operating subsidiary of The Laclede Group, Inc. and is headquartered in St. Louis, Missouri.

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