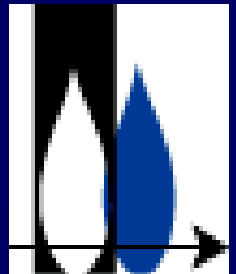


# ***Laclede Gas Company***

## **Natural Gas Supply and Prices Winter 0506**

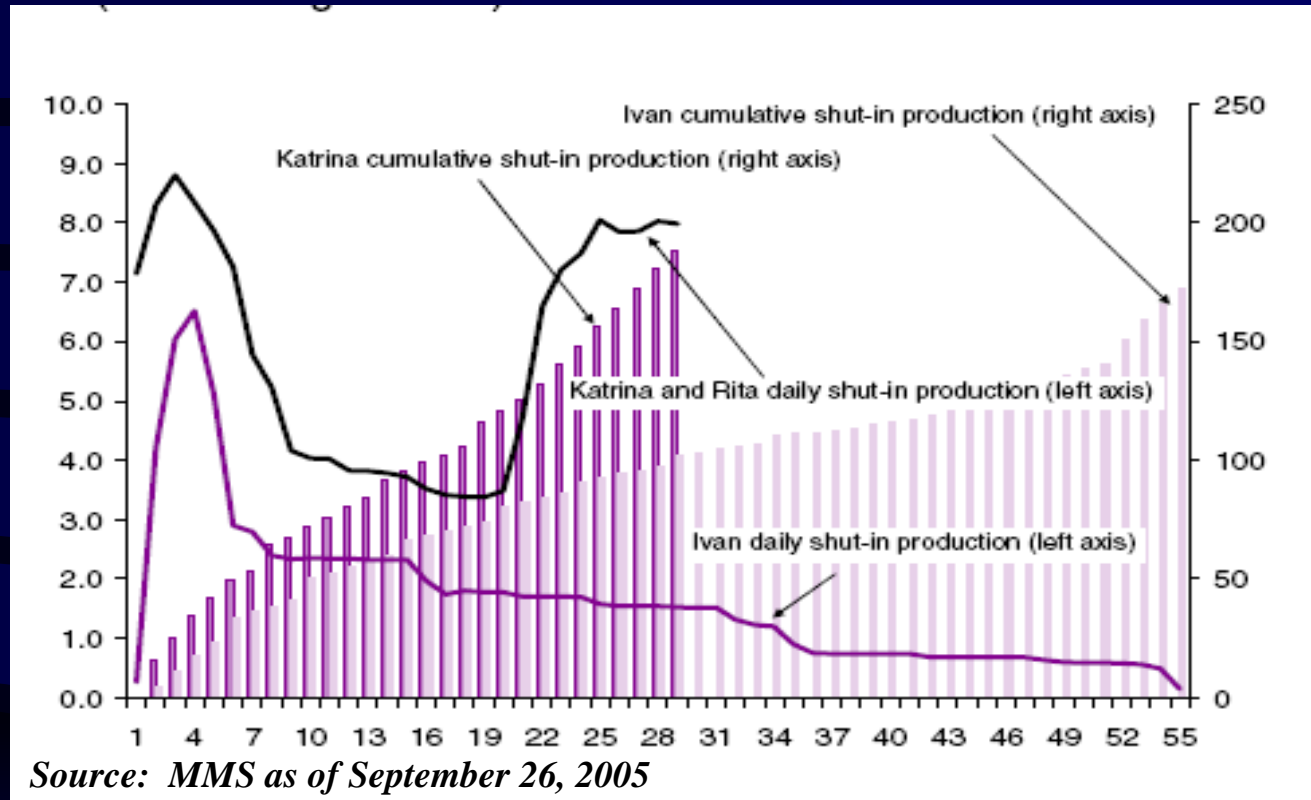
**Presentation to Missouri Public Service Commission  
October 6, 2005**



# Current Market Conditions

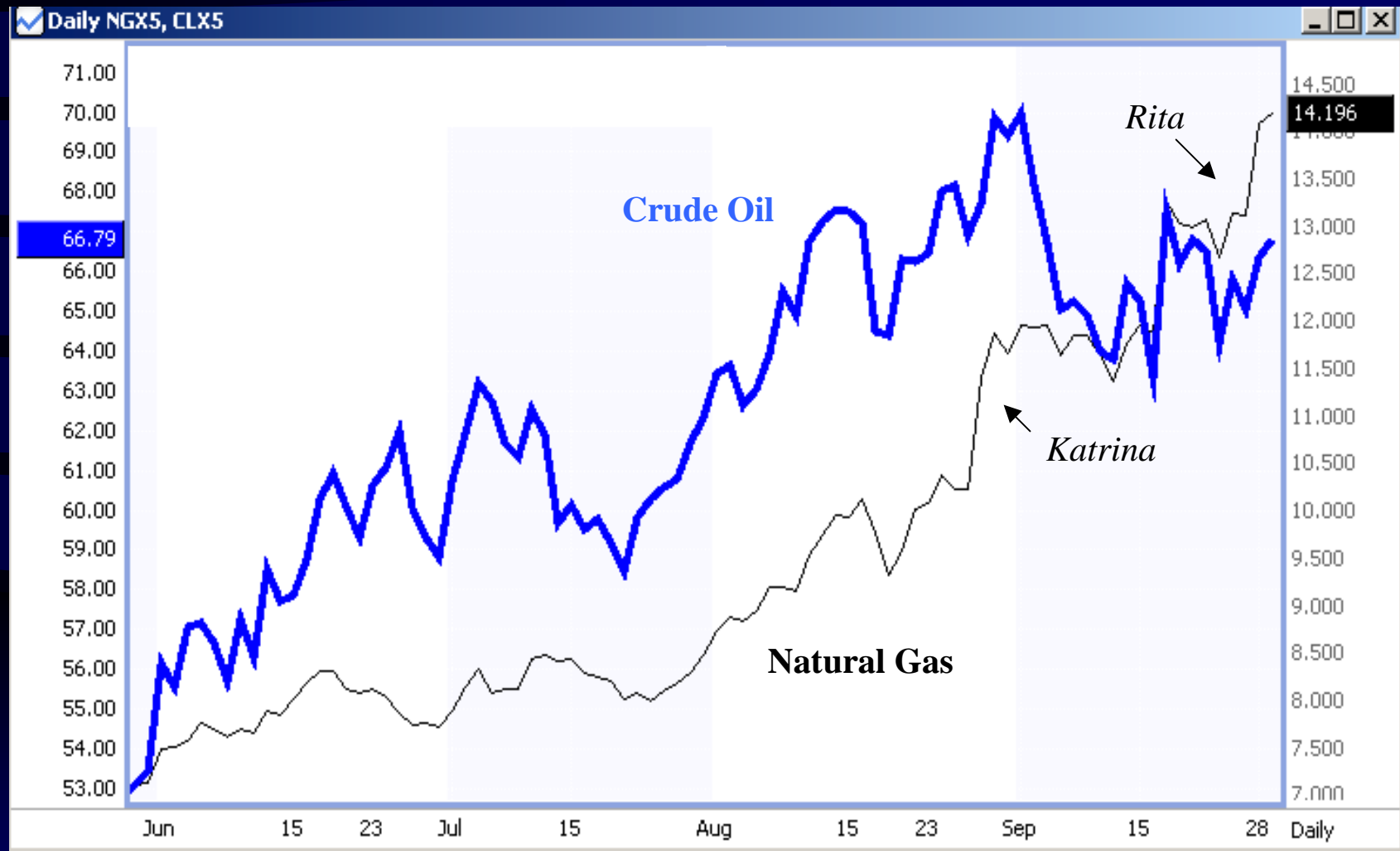
- ◆ Natural Gas prices have tracked the rise in oil prices from \$25/bbl in Mid 03 to over \$60/bbl today
- ◆ Katrina and Rita have caused (1) significant production losses and (2) the relative price of natural gas to rise above the price of oil
- ◆ 05-06 Winter NYMEX Strip for natural gas is \$14.65
- ◆ Laclede's physical gas commodity costs have risen from \$419 million in Fiscal 04 to an estimated \$1 billion in Fiscal 06 assuming comparable usage

# Supply impacts of Katrina and Rita vs. Ivan

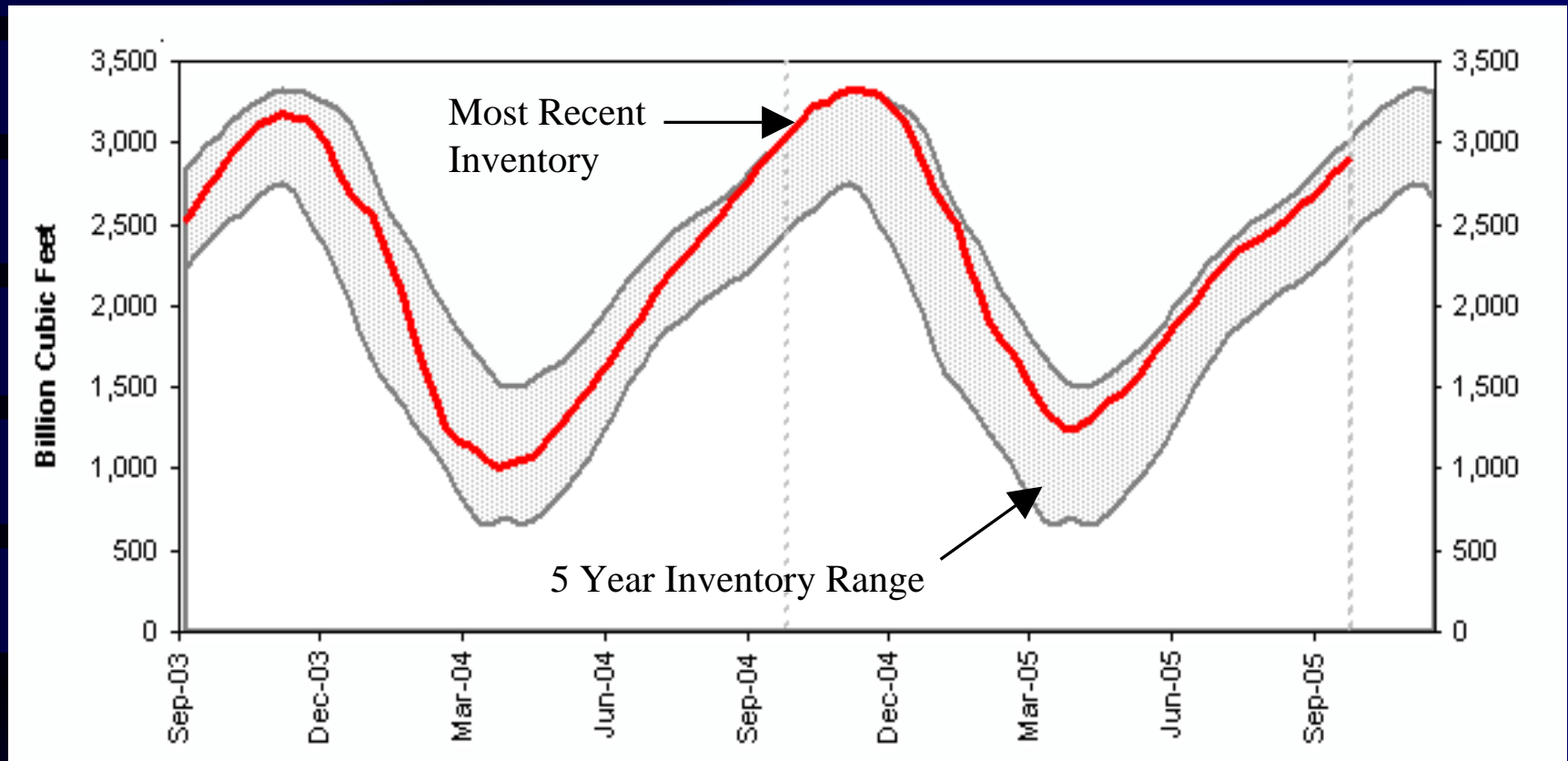


- ◆ Ivan's peak daily shut-in was less than 7 Bcf/day and the cumulative loss from Ivan was approximately 175 Bcf
- ◆ The estimates as of September 26 show that the daily shut-in from Katrina and Rita remained above 8 Bcf/day and the cumulative loss was nearing 200Bcf

# Katrina and Rita impact on prices

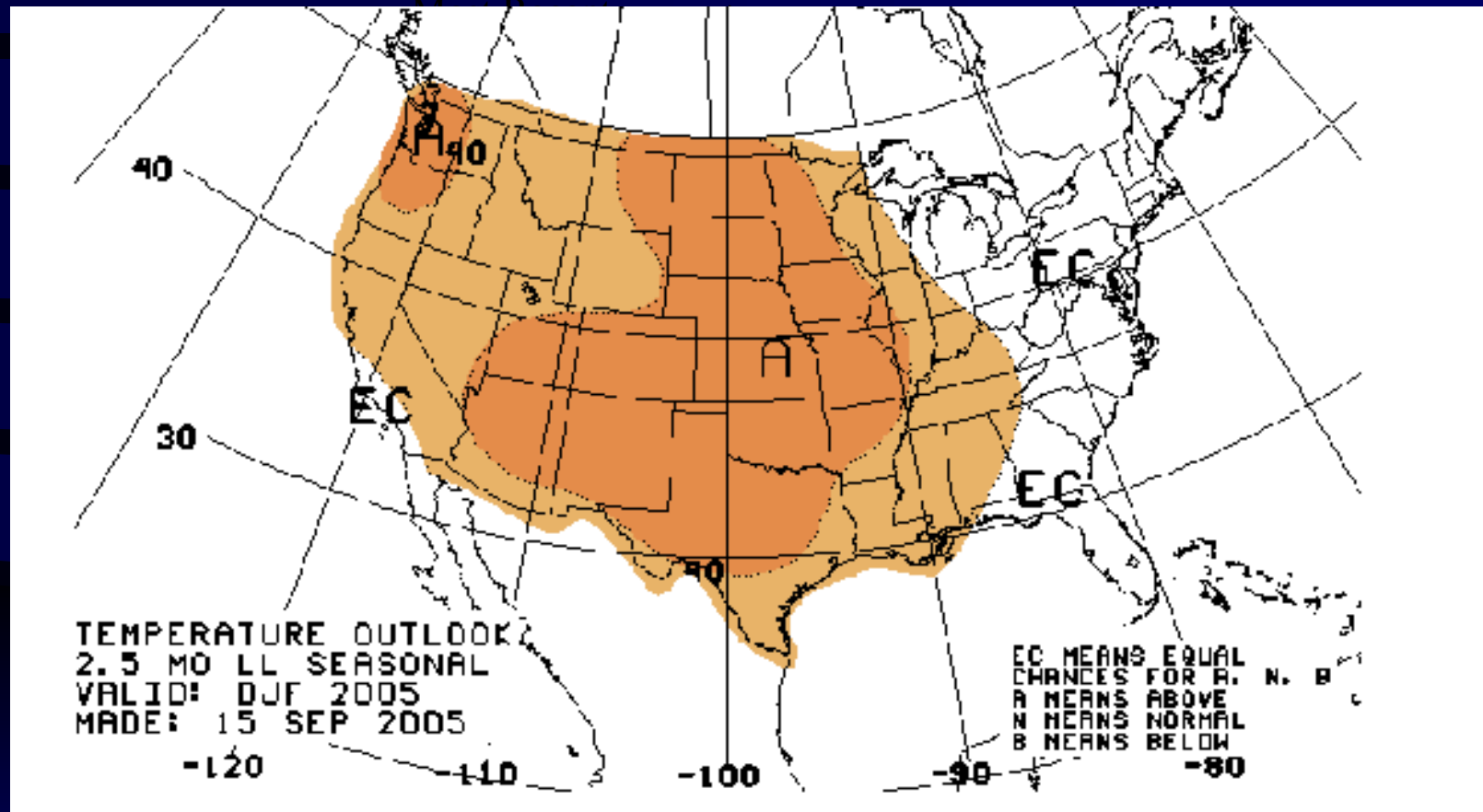


# Nationwide Natural Gas Storage Inventories



- ◆ Storage injections have been very high all summer even though hotter-than-normal weather has increased electric demand

# December 05 thru February 06 Weather Forecast



# Seasonal Break- Winter/ Summer

## A Historical Look at Seasonal Breaks

Season	(Oct-Mar) High	(within 6 months after the high is set) Low	% Break
2000-2001	10.100 (Dec '00)	2.910 (Jul '01)	71%
2001-2002	3.440 (Oct '01)	1.850 (Jan '02)	46%
2002-2003	10.100 (Feb '03)	4.390 (Sep '03)	56%
2003-2004	7.550 (Dec '03)	4.520 (Sep '04)	40%
2004-2005	9.200 (Oct '04)	5.710 (Jan '05)	38%

- ◆ In past seasons, from a winter time high (Oct-Mar) the Market has seen a significant break within 6 months of setting the high

# Price Break Scenarios for 05-06

## Potential Seasonal Low Vs. Oct-Mar High 2005-2006

Possible Winter High	POSSIBLE SCENARIOS BASED ON HISTORICAL SEASONAL PRICE BREAKS		
	50% (Ave)	38% (High Case Scenario)	71% (Low Case Scenario)
14.55 (Now)	7.22	9.02	4.21
16.00	8.00	9.92	4.64
18.00	9.00	11.16	5.22
20.00	10.00	12.40	5.80

- ◆ \$7.22 to \$10.00 is the potential seasonal low range based on the average historical price break



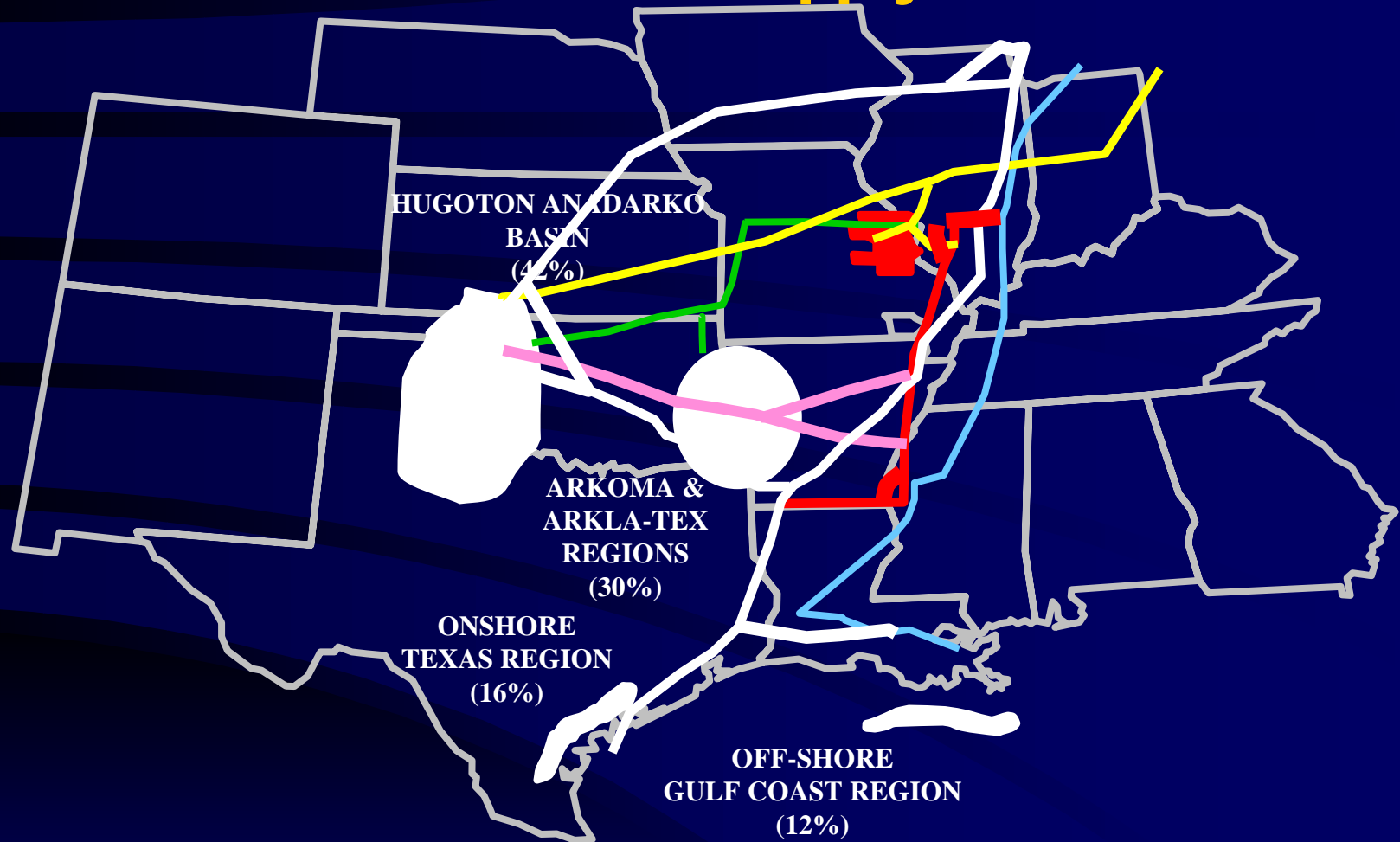
# Laclede Gas Company

## 05-06 Natural Gas Portfolio

- ◆ 100% of supplies will be placed under firm contracts
- ◆ Major producers :
- ◆ Major aggregators holding assets consistent with our transportation capacity:

# Laclede Gas Company

## 0506 Natural Gas Supply Sources



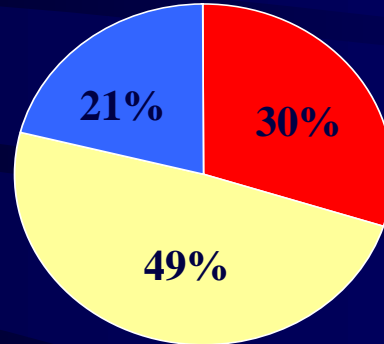
- ◆ Laclede's portfolio allows abundant access to cheaper-priced Midcontinent supplies

# Laclede Gas Company

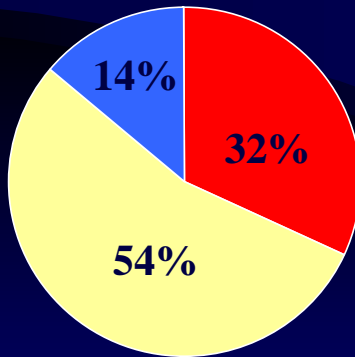
## Winter Load Profile



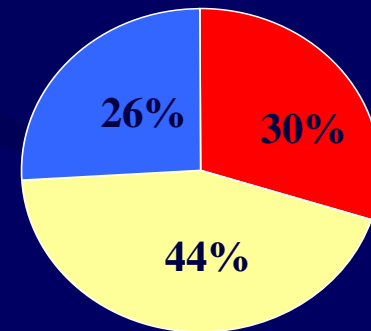
**Normal Scenario**



**Warm Scenario**

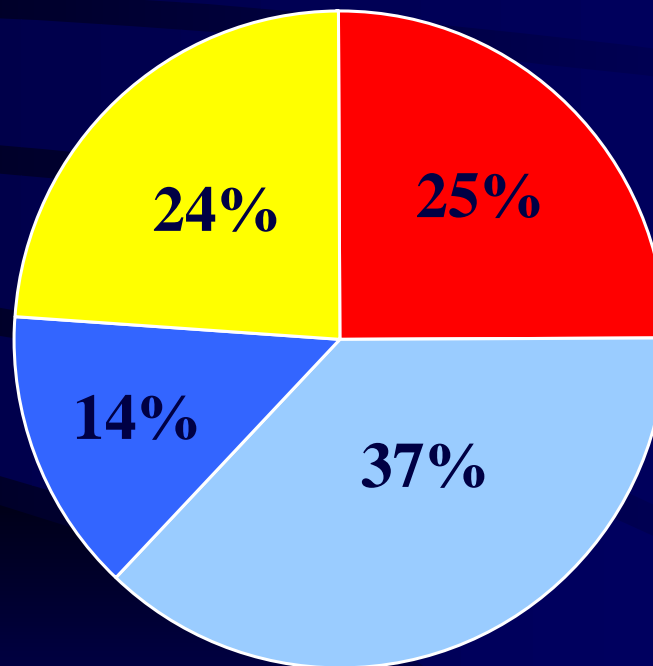


**Cold Scenario**



# Laclede Gas Company

## Peak Day Supply Resources



- ◆ Approximately 63% of Laclede's peak day supply will come from natural gas or propane storage

# Laclede Gas Company

## Price Mitigation Strategy

- ◆ Approximately 23 Bcf of leased underground storage in North Louisiana
- ◆ Approximately 4 Bcf of on-system underground storage in North St. Louis
- ◆ Approximately 3 Bcf equivalent of on-system propane in an underground cavern in North St. Louis
- ◆ Approximately 70% of Laclede's flowing supply will be covered with NYMEX financial hedges

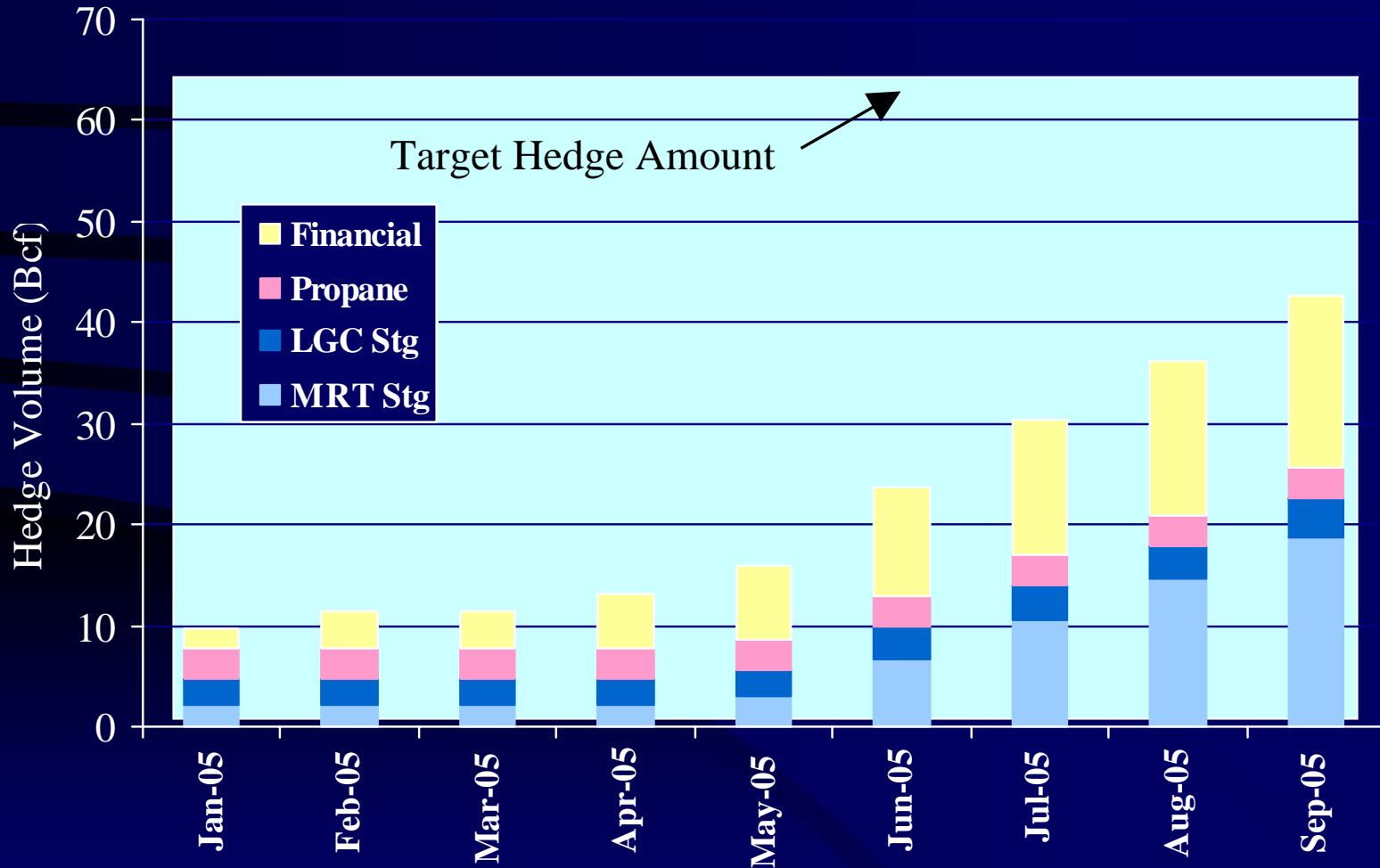
# Laclede Gas Company

## Funding for Hedging Program

- ◆ Board approved \$ million annually to cover hedges up to 18 months out
- ◆ Due to volatility in the market, over the past year, the cost of obtaining effective hedges has been unprecedented
- ◆ To obtain price protection in this high cost market, the Company combines options with futures, collars, and caps

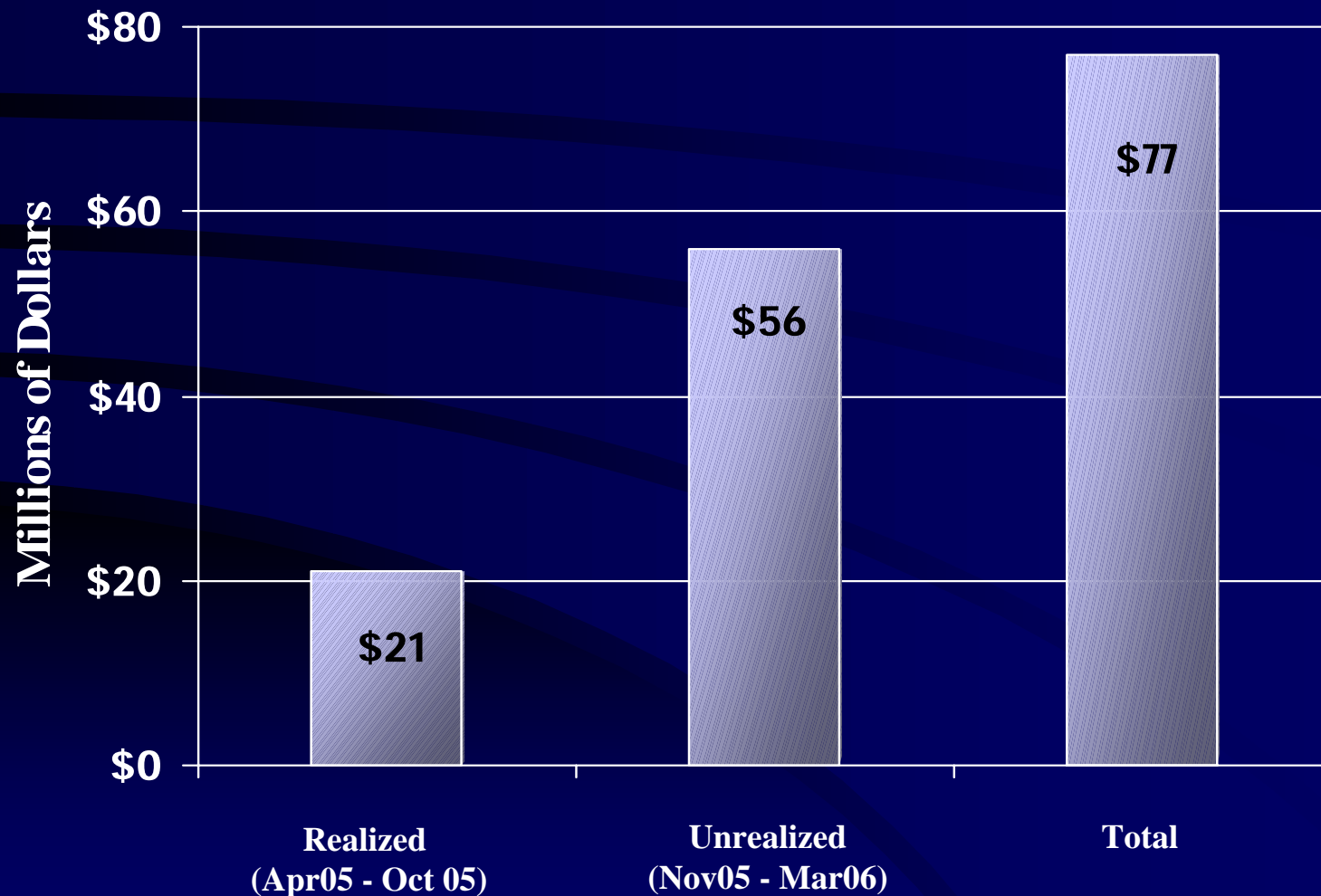
# Laclede Gas Company

## 0506 Winter Hedge Position as of September 30, 2005



# Laclede Gas Company

## Gains from Financial Hedges for 0506 as of October 4, 2005





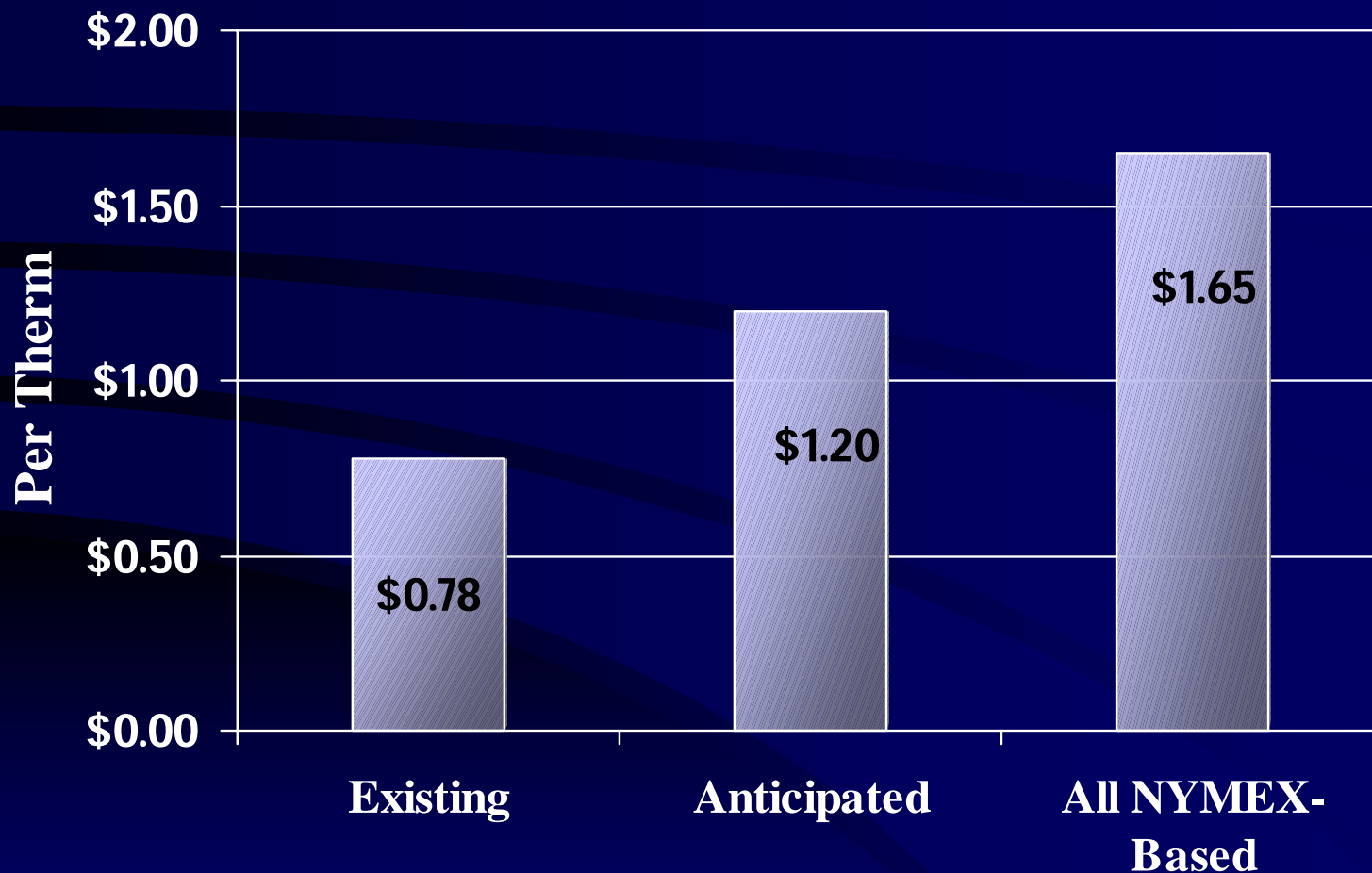
# Laclede Gas Company

## Cost reductions resulting from physical basis and financial hedges for September 05

	Average Price <u>(\$/MMMBtu)</u>
<i>- NYMEX Settlement Price</i>	\$ 10.85
<i>- Benefit of Physical Basis</i>	(\$1.50)
<i>- Net Unit Financial Hedge Benefit</i>	(\$1.14)
<hr/> <i>Net Gas Cost</i>	<hr/> \$8.21

# Laclede Gas Company

## Comparison of Anticipated PGA with Existing and Hypothetical NYMEX-Based PGAs



*Prices based on Settle on 9/30/05*

# Emergency Curtailment Procedures

- ◆ Under Title III of the NGPA, the President has authority to allocate gas supplies to protect high priority users
- ◆ Laclede's tariff authorizes it to curtail in the following order:
  - 1 Interruptible and basic transportation
  - 2 Firm sales and firm transportation with alternate fuel capability
  - 3 Schools and remaining industrial load
- ◆ Laclede may purchase its transportation customers' gas after exhausting curtailment steps
- ◆ MRT's tariff authorizes it to reallocate capacity and divert gas supplies to serve human needs after the LDC has exhausted all available alternatives

# Laclede Gas Company

## Capacity to manage liquidity

- ◆ Creditworthiness and access to cash is critical to the Company's ability to acquire the gas supplies required to meet the needs of its customers
- ◆ Under the current rules of gas cost recovery, Laclede can manage liquidity this winter
- ◆ Rating agencies expect *improvement* in Laclede's financial measures to maintain current debt ratings

## Capacity to manage liquidity (continued)

- ◆ A downgrade in Laclede's current ratings is virtually assured if gas cost recovery is slowed
- ◆ A downgrade would ---
  - Include both short and long term debt
  - Increase borrowing costs
  - Cause sources of credit to dry up
  - Result in gas supply pre-payment demands
- ◆ Inadequate gas cost recovery would influence Laclede's ratings for years to come

# Capacity to manage liquidity (continued)

## ◆ Warnings by rating agencies

- “Fitch will take ratings actions if and when .... utilities are unable to recover prudently incurred costs.”

Fitch Ratings Ltd., October 3, 2005

- “Slow [gas cost] recovery could impinge on the firm’s liquidity...Continued regulatory support is paramount to credit quality for LDCs, especially during periods of prolonged high natural gas prices.”

Prolonged High Natural Gas Prices May Increase Credit Risk for U.S. Gas Distributors, Standards and Poor’s, January 19, 2005

# Laclede Gas Company

## Steps Being Taken to Help Customers Cope with Higher Bills

**Informing Customers of what they can do now to better cope with higher winter bills**

- ◆ Conservation and energy-efficiency tips
- ◆ Availability and benefits of budget billing
- ◆ Availability of low-income energy assistance and energy efficiency programs

# Laclede Gas Company

**Educating members of the media and customers on the factors underlying the surge in natural gas prices and what they can do about it**

- ◆ Nationwide problem that requires a nationwide solution
- ◆ Need to reduce use of natural gas for electric generation and to conserve overall
- ◆ Need for greater access to production areas



# Laclede Gas Company

## *Pursuing and Providing* assistance for the most vulnerable customers

- ◆ Increase in LIHEAP funding
- ◆ State appropriation for UtiliCare
- ◆ Implementation and funding of Company's low-income energy assistance and weatherization programs
- ◆ Dollar Help