

LACLEDE GAS COMPANY
SAINT LOUIS

R. C. JAUDES
EXECUTIVE VICE PRESIDENT-FINANCE

December 15, 1986

FILED
DEC 15 1986
PUBLIC SERVICE COMMISSION

Mr. Daniel J. Redel
Acting Secretary
Missouri Public Service Commission
Truman State Office Building
301 West High Street
Jefferson City, MO 65102

Re: Case No. AO-87-48

In the matter of the investigation
of the revenue effects upon Missouri
utilities of the Tax Reform Act of
1986

Dear Mr. Redel:

Three copies of this letter and the enclosed materials are submitted by Laclede Gas Company for filing with the Commission pursuant to the Commission's Order issued November 3, 1986 in Case No. AO-87-48. In that order, certain Missouri utilities, including Laclede, were directed to file, on or before December 15, 1986, various financial reports, calculations and work papers relating to the revenue requirement impact of the Tax Reform Act of 1986 (TRA). This initial report of TRA impact on revenue requirements was to be based on actual 1985 operations with additional computations of impact, based on 1986 operations, to be filed by February 28, 1986.

The enclosed materials set forth the requested TRA impact data based on operating results applicable to Laclede's 1985 fiscal year ending September 30, 1985. Federal income taxes have been based on (i) the old tax law as applicable to fiscal 1986 (46% tax rate), (ii) the TRA as applicable to the 1987 fiscal year ending September 30, 1987 (42.975% blended tax rate) and (iii) the full TRA effect applicable to the fiscal year ending September 30, 1988 (34% tax rate). Laclede has used the September 30 fiscal periods in lieu of calendar year periods because such represent both its tax and financial reporting annual periods. Laclede will not experience the TRA tax rate of 40% which will be applicable to 1987 calendar year tax returns and the use of that rate and tax period would be meaningless as to Laclede. We have discussed use of our fiscal year periods with the Commission's Accounting Staff and it concurs in our reporting on that basis.

The enclosed Exhibit A shows that for the first year of TRA applicability (that ending September 30, 1987), the computed impact is an increase in Laclede's revenue requirements of about \$44,000. This relatively small adverse impact results from the fact that the overall blended tax rate is

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reduced by only some 3% for the first year, a tax rate reduction not sufficient to completely offset other adverse provisions of the TRA. Exhibit A further shows that for the year ending September 30, 1988, the TRA will reduce Laclede's computed annual revenue requirement by some \$6.7 million.

It should be noted that the computations of TRA impact, as requested by the Commission and as reported herein, do not represent the real TRA impact to be experienced. The requested pro-forma application of 1987 and 1988 TRA provisions to unadjusted 1985 operations will yield significantly different results than that which will be actually experienced in 1987 and 1988. The deferred tax reserves at year end 1985, used in such computations are not those that will exist at September 30, 1986, 1987 and 1988. Only the deferred tax balances at those dates are relevant to the quantification of the turn-around benefits which the Commission is seeking. Accordingly, Laclede believes the data being gathered is of limited value for regulatory purposes.

In addition to the TRA computations, the Commission also requested utilities to file comments relating to the regulatory treatment of the TRA. Specifically, the Commission requested an explanation of any proposals for reflecting TRA impact on operations, including an explanation of any belief that rate adjustments are not appropriate to reflect TRA impact and any comments as to appropriate procedures for recognizing the TRA in the rate making process. While there has not been sufficient time to develop detailed final proposals as to regulatory treatment of the TRA, Laclede will nevertheless offer the Commission its preliminary comments on the matter in the following paragraphs.

First, it may be that a single uniform regulatory response cannot be fairly applied to all utilities. There are likely to be wide variations as to the extent individual utilities are impacted by the TRA. In Laclede's case, the first year application of the TRA is indicated to be a small increase in revenue requirement -- thus no ratemaking response is indicated to be needed before October 1, 1987. However, as described below, it may be possible to include the first year impact of TRA, that applicable to the year ending September 30, 1987, in the form of regulatory response which Laclede outlines below.

The following discussion and proposal is offered in the same context mentioned before -- we believe such proposal may have merit for application to Laclede but may not necessarily be appropriate for universal application to all utilities.

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Laclede does not contend it should profit from decreases in the amount of income taxes which it must pay, but at the same time Laclede believes it is entitled to full recovery of income taxes it must pay. In keeping with that precept, Laclede suggests exploring a method under which all income tax reductions or increases can be reflected in rates in a manner that is fair to both the Company and its customers. We believe a procedure can be developed which will properly identify income tax expense changes, and appropriately flow such changes through to rate payers.

Our initial thinking is to design a form of Federal Income Tax Adjustment Clause under which increases or decreases in federal income taxes resulting from tax law changes are computed monthly and aggregated in a separate deferred account. Such deferred tax account balance would form the basis for annual rate adjustments. This concept provides customers with the assurance that the Company will not receive excessive returns or inadequate returns due to the TRA or future changes in the tax law. Further, it permits the process to be handled on an actual experience basis. Laclede intends to analyse this approach and develop it in the coming weeks in the hope that more specific proposals can be advanced by February 28, 1987, the date set by the Commission for filing TRA impacts based on 1986 operations.

If the Commission's Staff has any questions regarding the material filed herewith, please contact me or Mr. Glenn F. Smith, Vice President and Controller of Laclede.

Very truly yours,



RCJ/jjd

EXHIBIT A

LACLEDE GAS COMPANY
SUMMARY OF PRO-FORMA REVENUE REQUIREMENT IN ACCORDANCE
WITH ORDER IN MOPSC CASE NO. AO-87-48
FISCAL YEAR 1985 INCOME

	REVENUE REQUIREMENT -----	CHANGE FROM 1986 TAX LAW -----
REFLECTING FISCAL 1986 TAX LAW	\$618,684,779	-
REFLECTING FISCAL 1987 TAX LAW	\$618,728,687	\$ 43,908
REFLECTING FISCAL 1988 TAX LAW	\$612,001,017	\$(6,683,762)

SCHEDULE 1-I

LACLEDE GAS COMPANY
CALCULATION OF PRO-FORMA REVENUE REQUIREMENT IN ACCORDANCE
WITH ORDER IN MOPSC CASE NO. AO-87-48
FISCAL YEAR 1985 INCOME REFLECTING FISCAL 1986 TAX LAW

TOTAL OPERATING EXPENSES EXCLUDING INCOME TAXES		\$ 562,447,950
INCOME BEFORE INCOME TAXES-LACLEDE PIPELINE CO		(245,917)
RETURN:		
RATE BASE	\$ 275,967,000	
RATE OF RETURN	12.58%	
	-----	34,716,649
INCOME TAXES		21,766,097

TOTAL REVENUE REQUIREMENT		\$618,684,779
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LACLEDE GAS COMPANY
PRO-FORMA STATEMENT OF OPERATING INCOME
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1985

OPERATING REVENUES	\$617,114,025
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OPERATING EXPENSES	
OPERATING EXPENSES	\$489,503,020
MAINTENANCE EXPENSES	11,796,723
DEPRECIATION EXPENSES	15,280,841
AMORTIZATION AND DEPLETION OF UTILITY PLANT	1,798,845
TAXES OTHER THAN INCOME TAXES	44,068,521
INCOME TAXES	20,907,600
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TOTAL UTILITY OPERATING EXPENSES	\$583,355,550
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NET UTILITY OPERATING INCOME	33,758,475
INCOME BEFORE INCOME TAXES - LACLEDE PIPELINE CO.	245,917
INCOME TAXES - LACLEDE PIPELINE COMPANY	109,200
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NET UTILITY OPERATING INCOME INCLUDING LACLEDE PIPELINE	\$33,895,192
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LACLEDE GAS COMPANY
CURRENT AND DEFERRED INCOME TAX EXPENSE
FISCAL YEAR 1985 PRO-FORMA

CALCULATION OF TAXABLE INCOME:

NET OPERATING INCOME	\$ 33,758,475
CURRENT INCOME TAX	15,127,300
DEFERRED INVESTMENT TAX CREDIT	1,663,600
AMORTIZATION OF INVESTMENT TAX CREDIT	-433,000
OTHER DEFERRED INCOME TAXES	4,843,600
EXPLORATION AND DEVELOPMENT NET (INCOME)/LOSS	281,890
TOTAL	21,483,390
NET INCOME BEFORE TAXES	55,241,865
ADDITIONS:	
PURCHASED NATURAL GAS COST DEFERRAL	1,663,853
DEDUCTIBLE AD VALOREM TAXES	154,346
INCREASE IN RESERVES	951,213
RESIDENTIAL CONSERVATION SURVEY	674,592
MISCELLANEOUS NON-DEDUCTIBLE EXPENSES	45,909
TOTAL ADDITIONS	3,489,913
DEDUCTIONS:	
INTEREST DEDUCTION	7,092,000
LP GAS, P.G.A., AND WINTER SERVICE DEFERRALS	8,616,088
TAX DEPRECIATION IN EXCESS OF TAX STRAIGHT LINE	5,046,900
STRAIGHT LINE DEPRECIATION IN EXCESS OF BOOK	-1,995,903
ADMINISTRATIVE & GENERAL EXPENSES CAPITALIZED	3,720,943
PAYROLL TAXES CAPITALIZED	696,950
ADR DEPRECIATION METHOD COST OF REMOVAL	85,000
UNDERGROUND STORAGE INVENTORY DEMAND CHARGE	17,500
CUSTOMER INFORMATION SYSTEM	176,908
TOTAL DEDUCTIONS	23,456,386
NET TAXABLE INCOME	\$ <u>35,275,392</u>

LACLEDE GAS COMPANY
CURRENT AND DEFERRED INCOME TAX EXPENSE
FISCAL YEAR 1985 PRO-FORMA

INCOME TAX CALCULATION:

PROVISION FOR CITY INCOME TAX:	
NET TAXABLE INCOME	\$ 35,275,392
CITY INCOME TAX	141,100
PROVISION FOR FEDERAL INCOME TAX:	
NET TAXABLE INCOME	35,275,392
LESS: DEDUCTIBLE CITY TAX	141,100
DEDUCTIBLE MISSOURI TAX	1,060,400
FEDERAL TAXABLE INCOME	34,073,892
FEDERAL INCOME TAX	15,674,000
LESS: RESEARCH TAX CREDIT	84,600
INVESTMENT TAX CREDIT USED	1,663,600
FEDERAL INCOME TAX	13,925,800
PROVISION FOR MISSOURI INCOME TAX:	
NET TAXABLE INCOME	35,275,392
LESS: DEDUCTIBLE CITY TAX	141,100
DEDUCTIBLE FEDERAL INCOME TAX	13,925,800
MISSOURI TAXABLE INCOME	21,208,492
MISSOURI INCOME TAX	1,060,400
SUMMARY OF PROVISION FOR INCOME TAX:	
CITY INCOME TAX	141,100
FEDERAL INCOME TAX	13,925,800
MISSOURI INCOME TAX	1,060,400

PROVISION FOR INCOME TAXES-CURRENT	\$ 15,127,300

LACLEDE GAS COMPANY
CURRENT AND DEFERRED INCOME TAX EXPENSE
FISCAL YEAR 1985 PRO-FORMA

DEFERRED INCOME TAX EXPENSE:

LIBERALIZED DEPRECIATION	\$	2,380,700
LP GAS, P.G.A., AND WINTER SERVICE DEFERRALS		4,075,700
PURCHASED NATURAL GAS COST DEFERRAL		-787,000
RESIDENTIAL CONSERVATION SURVEY		-319,100
OTHER RESERVES		-449,900
CUSTOMER INFORMATION SYSTEM		83,700
DEPRECIATION CAPITALIZED		14,500
FORFEITED SERVICE DEPOSITS		23,500
GAIN ON REACQUIRED DEBT		-178,500
INVESTMENT TAX CREDIT - PROVISION		1,663,600
INVESTMENT TAX CREDIT - WRITEOFF		-433,000

PROVISION FOR DEFERRED INCOME TAXES	\$	6,074,200
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DISTRIBUTION OPERATING INCOME:

CURRENT INCOME TAX EXPENSE PROVISION	\$	15,127,300
DEFERRED INCOME TAX EXPENSE PROVISION		6,074,200
EXPLORATION AND DEVELOPMENT:		
CURRENT INCOME TAX EXPENSE PROVISION		900,200
DEFERRED INCOME TAX EXPENSE PROVISION		-1,194,100
LACLEDE PIPELINE		109,200

TOTAL INCOME TAX EXPENSE	\$	21,016,800
		=====

NET OPERATING INCOME REQUIREMENT	\$	34,716,649
NET UTILITY OPERATING INCOME		33,895,192

NET OPERATING INCOME DEFICIENCY	\$	821,457
PRE-TAX INCOME DIVISOR		52.297%
INCOME DEFICIENCY BEFORE INCOME TAX	\$	1,570,754
INCOME TAX RATE		47.703%
INCOME TAX ADJUSTMENT		749,297

INCOME TAX PRO-FORMA	\$	21,766,097
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SCHEDULE 1-IV

LACLEDE GAS COMPANY
RATE BASE

	AMOUNT

NET PLANT AT SEPTEMBER 30, 1985:	
UTILITY PLANT IN SERVICE	\$430,374,000
NATURAL GAS STORED UNDERGROUND-NON-CURRENT	3,773,000
OTHER UTILITY PLANT	21,561,000
LESS: ACCUMULATED DEPRECIATION AND AMORTIZATION	202,336,000

NET PLANT	253,372,000

ADD:	
SPECIAL DEPOSITS	7,000
PROPANE GAS INVENTORY	14,218,000
NATURAL GAS STORED UNDERGROUND	10,596,000
PREPAYMENTS	2,113,000
PREPAYMENTS/DEFERRAL: WINTER SERVICE	8,126,000
GAS RESEARCH INSTITUTE PAYMENTS DEFERRED	459,000
INSULATION FINANCING PROGRAM LOANS	2,000,000
MATERIALS AND SUPPLIES	3,797,000
CASH WORKING CAPITAL	8,989,000

SUBTOTAL	50,305,000

DEDUCT:	
CUSTOMER ADVANCES FOR CONSTRUCTION	1,175,000
CUSTOMER DEPOSITS	4,925,000
DEFERRED INCOME TAXES	21,610,000

SUBTOTAL	27,710,000

TOTAL	\$275,967,000

SCHEDULE 1-V

LACLEDE GAS COMPANY
CAPITAL STRUCTURE AND DETERMINATION OF RATE OF RETURN
SEPTEMBER 30, 1985

	9/30/85 BALANCE	EMBEDDED COST	WEIGHTED COST
LONG TERM DEBT	\$ 84,584,000	7.97%	2.57%
PREFERRED STOCK	7,338,000	4.81%	0.13%
COMMON EQUITY			
TOTAL	\$173,065,000		
(LESS): SUBSIDIARY EQUITY INVESTMENT AND RETAINED EARNINGS	(1,944,000) 171,121,000	15.2%	9.88%
TOTAL	\$263,043,000		12.58%

SCHEDULE 2-I

LACLEDE GAS COMPANY
 CALCULATION OF PRO-FORMA REVENUE REQUIREMENT IN ACCORDANCE
 WITH ORDER IN MOPSC CASE NO. AO-87-48
 FISCAL YEAR 1985 INCOME REFLECTING FISCAL 1987 TAX LAW

TOTAL OPERATING EXPENSES EXCLUDING INCOME TAXES		\$562,447,950
INCOME BEFORE INCOME TAXES-LACLEDE PIPELINE CO		(245,917)
RETURN:		
RATE BASE	\$ 275,967,000	
RATE OF RETURN	12.58%	
	-----	34,716,649
INCOME TAXES		21,810,005

TOTAL REVENUE REQUIREMENT		\$ 618,728,687
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LACLEDE GAS COMPANY
PRO-FORMA STATEMENT OF OPERATING INCOME
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1985
ADJUSTED FOR FISCAL 1987 TAX LAW

OPERATING REVENUES	\$617,114,025
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OPERATING EXPENSES	
OPERATING EXPENSES	\$489,503,020
MAINTENANCE EXPENSES	11,796,723
DEPRECIATION EXPENSES	15,280,841
AMORTIZATION AND DEPLETION OF UTILITY PLANT	1,798,845
TAXES OTHER THAN INCOME TAXES	44,068,521
INCOME TAXES	20,984,200
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TOTAL UTILITY OPERATING EXPENSES	\$583,432,150
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NET UTILITY OPERATING INCOME	33,681,875
INCOME BEFORE INCOME TAXES - LACLEDE PIPELINE CO.	245,917
INCOME TAXES - LACLEDE PIPELINE COMPANY	101,500
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NET UTILITY OPERATING INCOME INCLUDING LACLEDE PIPELINE	\$33,826,292
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LACLEDE GAS COMPANY
CURRENT AND DEFERRED INCOME TAX EXPENSE
FISCAL YEAR 1985, FISCAL 1987 TAX LAW

CALCULATION OF TAXABLE INCOME:

NET TAXABLE INCOME FISCAL 1985 PRO-FORMA, FROM SCHEDULE 1-III	\$ 35,275,392
ADJUSTMENTS TO FISCAL YEAR 1987 TAX LAW:	
CONTRIBUTIONS IN AID OF CONSTRUCTION	352,235
INTEREST CAPITALIZATION	19,400
CAPITALIZE OVERHEADS ON SELF-CONSTRUCTED PROPERTY	3,313,420
TOTAL ADJUSTMENTS	3,685,055

NET TAXABLE INCOME	\$ 38,960,447

LACLEDE GAS COMPANY
CURRENT AND DEFERRED INCOME TAX EXPENSE
FISCAL YEAR 1985, FISCAL 1987 TAX LAW

INCOME TAX CALCULATION:

PROVISION FOR CITY INCOME TAX:	
NET TAXABLE INCOME	\$ 38,960,447
CITY INCOME TAX	155,800
PROVISION FOR FEDERAL INCOME TAX:	
NET TAXABLE INCOME	38,960,447
LESS: DEDUCTIBLE CITY TAX	155,800
DEDUCTIBLE MISSOURI TAX	1,134,200
FEDERAL TAXABLE INCOME	37,670,447
FEDERAL INCOME TAX	16,188,900
LESS: RESEARCH TAX CREDIT	84,600
INVESTMENT TAX CREDIT USED	1,663,600
ADJUSTMENTS TO FISCAL YEAR 1987 TAX LAW:	
REDUCED RESEARCH TAX CREDIT	-16,900
ELIMINATION OF INVESTMENT TAX CREDIT	-1,663,600
FEDERAL INCOME TAX	16,121,200
PROVISION FOR MISSOURI INCOME TAX:	
NET TAXABLE INCOME	38,960,447
LESS: DEDUCTIBLE CITY TAX	155,800
DEDUCTIBLE FEDERAL INCOME TAX	16,121,200
MISSOURI TAXABLE INCOME	22,683,447
MISSOURI INCOME TAX	1,134,200
SUMMARY OF PROVISION FOR INCOME TAX:	
CITY INCOME TAX	155,800
FEDERAL INCOME TAX	16,121,200
MISSOURI INCOME TAX	1,134,200
PROVISION FOR INCOME TAXES-CURRENT	\$ 17,411,200

LACLEDE GAS COMPANY
CURRENT AND DEFERRED INCOME TAX EXPENSE
FISCAL YEAR 1985, FISCAL 1987 TAX LAW

DEFERRED INCOME TAX EXPENSE:

DEFERRED INCOME TAX EXPENSE FISCAL 1985 PRO-FORMA, FROM SCHEDULE 1-III	\$ 6,074,200
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ADJUSTMENTS TO FISCAL YEAR 1987 TAX LAW:

LIBERALIZED DEPRECIATION	-153,300
LP GAS, P.G.A., AND WINTER SERVICE DEFERRALS	-139,200
PURCHASED NATURAL GAS COST DEFERRAL	-136,900
RESIDENTIAL CONSERVATION SURVEY	19,200
OTHER RESERVES	27,800
CUSTOMER INFORMATION SYSTEM	-5,100
GAIN ON REACQUIRED DEBT	4,500
CONTRIBUTIONS IN AID OF CONSTRUCTION	-156,600
INVESTMENT TAX CREDIT - PROVISION	-1,663,600
INVESTMENT TAX CREDIT - WRITEOFF	48,000

PROVISION FOR DEFERRED INCOME TAXES	\$ 3,919,000
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DISTRIBUTION OPERATING INCOME:

ADJUSTED CURRENT INCOME TAX EXPENSE	\$ 17,411,200
ADJUSTED DEFERRED INCOME TAX EXPENSE PROVISION	3,919,000

EXPLORATION AND DEVELOPMENT:

CURRENT INCOME TAX EXPENSE FROM SCHEDULE 1-III	900,200
ADJUSTMENT TO EXPLORATION & DEVELOPMENT TAX EXPENSE	-52,100
DEFERRED INCOME TAX EXPENSE PROVISION	-1,194,100
LACLEDE PIPELINE INCOME TAX EXPENSE FROM SCHEDULE 1-III	109,200
ADJUSTMENT TO LACLEDE PIPELINE INCOME TAX EXPENSE	-7,700

TOTAL INCOME TAX EXPENSE	\$ 21,085,700
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NET OPERATING INCOME REQUIREMENT	\$ 34,716,649
NET UTILITY OPERATING INCOME	33,826,292

NET OPERATING INCOME DEFICIENCY	\$ 890,357
PRE-TAX INCOME DIVISOR	55.142%
INCOME DEFICIENCY BEFORE INCOME TAX	\$ 1,614,662
INCOME TAX RATE	44.858%
INCOME TAX ADJUSTMENT	724,305

INCOME TAX PRO-FORMA	\$ 21,810,005
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SCHEDULE 3-I

LACLEDE GAS COMPANY
CALCULATION OF PRO-FORMA REVENUE REQUIREMENT IN ACCORDANCE
WITH ORDER IN MOPSC CASE NO. AO-87-48
FISCAL YEAR 1985 INCOME REFLECTING FISCAL 1988 TAX LAW

TOTAL OPERATING EXPENSES EXCLUDING INCOME TAXES	\$562,447,950
INCOME BEFORE INCOME TAXES-LACLEDE PIPELINE CO	(245,917)
RETURN:	
RATE BASE	\$275,967,000
RATE OF RETURN	12.58%

	34,716,649
INCOME TAXES	15,082,335

TOTAL REVENUE REQUIREMENT	\$612,001,017

LACLEDE GAS COMPANY
PRO-FORMA STATEMENT OF OPERATING INCOME
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1985
ADJUSTED FOR FISCAL 1988 TAX LAW

OPERATING REVENUES	\$617,114,025
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OPERATING EXPENSES	\$489,503,020
OPERATING EXPENSES	11,796,723
MAINTENANCE EXPENSES	15,280,841
DEPRECIATION EXPENSES	1,798,845
AMORTIZATION AND DEPLETION OF UTILITY PLANT	44,068,521
TAXES OTHER THAN INCOME TAXES	16,870,900
INCOME TAXES	-----
TOTAL UTILITY OPERATING EXPENSES	\$579,318,850
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NET UTILITY OPERATING INCOME	37,795,175
INCOME BEFORE INCOME TAXES - LACLEDE PIPELINE CO.	245,917
INCOME TAXES - LACLEDE PIPELINE COMPANY	76,200
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NET UTILITY OPERATING INCOME INCLUDING LACLEDE PIPELINE	\$37,964,892
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LACLEDE GAS COMPANY
CURRENT AND DEFERRED INCOME TAX EXPENSE
FISCAL YEAR 1985, FISCAL 1988 TAX LAW

CALCULATION OF TAXABLE INCOME:

NET TAXABLE INCOME FISCAL 1985 PRO-FORMA, FROM SCHEDULE 1-III	\$ 35,275,392
ADJUSTMENTS TO FISCAL YEAR 1987 TAX LAW:	
CONTRIBUTIONS IN AID OF CONSTRUCTION	469,647
INTEREST CAPITALIZATION	22,100
CAPITALIZE OVERHEADS ON SELF-CONSTRUCTED PROPERTY	4,417,893
BAD DEBT RESERVE - CURRENT YEAR	1,624,027
AMORTIZE BALANCE	2,079,343
UNBILLED REVENUE - CURRENT YEAR	-1,716,419
AMORTIZE BALANCE	2,839,200
TOTAL ADJUSTMENTS	9,735,791
NET TAXABLE INCOME	\$ 45,011,183

CURRENT AND DEFERRED INCOME TAX EXPENSE
FISCAL YEAR 1985, FISCAL 1988 TAX LAW

INCOME TAX CALCULATION:

PROVISION FOR CITY INCOME TAX:	
NET TAXABLE INCOME	\$ 45,011,183
CITY INCOME TAX	180,000
PROVISION FOR FEDERAL INCOME TAX:	
NET TAXABLE INCOME	45,011,183
LESS: DEDUCTIBLE CITY TAX	180,000
DEDUCTIBLE MISSOURI TAX	1,508,500
FEDERAL TAXABLE INCOME	43,322,683
FEDERAL INCOME TAX	14,729,700
LESS: RESEARCH TAX CREDIT	84,600
INVESTMENT TAX CREDIT USED	1,663,600
ADJUSTMENTS TO FISCAL YEAR 1988 TAX LAW:	
REDUCED RESEARCH TAX CREDIT	-16,900
ELIMINATION OF INVESTMENT TAX CREDIT	-1,663,600
FEDERAL INCOME TAX	14,662,000
PROVISION FOR MISSOURI INCOME TAX:	
NET TAXABLE INCOME	45,011,183
LESS: DEDUCTIBLE CITY TAX	180,000
DEDUCTIBLE FEDERAL INCOME TAX	14,662,000
MISSOURI TAXABLE INCOME	30,169,183
MISSOURI INCOME TAX	1,508,500
SUMMARY OF PROVISION FOR INCOME TAX:	
CITY INCOME TAX	180,000
FEDERAL INCOME TAX	14,662,000
MISSOURI INCOME TAX	1,508,500
PROVISION FOR INCOME TAXES-CURRENT	\$ <u>16,350,500</u>

CURRENT AND DEFERRED INCOME TAX EXPENSE
FISCAL YEAR 1985, FISCAL 1988 TAX LAW

DEFERRED INCOME TAX EXPENSE:

DEFERRED INCOME TAX EXPENSE FISCAL 1985 PRO-FORMA, FROM SCHEDULE 1-III	\$ 6,074,200
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ADJUSTMENTS TO FISCAL YEAR 1987 TAX LAW:

LIBERALIZED DEPRECIATION	-605,600
LP GAS, P.G.A., AND WINTER SERVICE DEFERRALS	-812,400
PURCHASED NATURAL GAS COST DEFERRAL	-352,000
RESIDENTIAL CONSERVATION SURVEY	75,700
OTHER RESERVES	175,000
CUSTOMER INFORMATION SYSTEM	-19,900
GAIN ON REACQUIRED DEBT	9,000
CONTRIBUTIONS IN AID OF CONSTRUCTION	-161,600
BAD DEBT RESERVE	-1,335,800
UNBILLED REVENUE	-405,000
INVESTMENT TAX CREDIT - PROVISION	-1,663,600
INVESTMENT TAX CREDIT - WRITEOFF	48,000

PROVISION FOR DEFERRED INCOME TAXES	\$ 1,026,000
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DISTRIBUTION OPERATING INCOME:

ADJUSTED CURRENT INCOME TAX EXPENSE	\$ 16,350,500
ADJUSTED DEFERRED INCOME TAX EXPENSE PROVISION	1,026,000

EXPLORATION AND DEVELOPMENT:

CURRENT INCOME TAX EXPENSE FROM SCHEDULE 1-III	900,200
ADJUSTMENT TO EXPLORATION & DEVELOPMENT TAX EXPENSE	-211,700
DEFERRED INCOME TAX EXPENSE PROVISION	-1,194,100
LACLEDE PIPELINE INCOME TAX EXPENSE FROM SCHEDULE 1-III	109,200
ADJUSTMENT TO LACLEDE PIPELINE INCOME TAX EXPENSE	-33,000

TOTAL INCOME TAX EXPENSE	\$ 16,947,100
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NET OPERATING INCOME REQUIREMENT	\$ 34,716,649
NET UTILITY OPERATING INCOME	37,964,892

NET OPERATING INCOME DEFICIENCY	\$ -3,248,243
PRE-TAX INCOME DIVISOR	63.529%
INCOME DEFICIENCY BEFORE INCOME TAX	\$ -5,113,008
INCOME TAX RATE	36.471%
INCOME TAX ADJUSTMENT	-1,864,765

INCOME TAX PRO-FORMA	\$ 15,082,335
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LACLEDE GAS COMPANY
DEFERRED INCOME TAX BALANCES

The accompanying schedule details the utility Deferred Tax Balance at September 30, 1985 and also shows an estimate of the amount of excess reserves if tax rates had changed at that date.

Approximately \$4.9 million of such estimated excess tax reserves, reflecting the scheduled reduction in the Federal statutory tax rate, relate to tax/book timing differences that are related to gas utility property that will turn-around over the remaining life of that property. The Tax Reform Act of 1986 requires that the turnaround benefit coincident to Liberalized Depreciation be flowed through over the remaining life of the property.

The other estimated excess tax reserves total \$2.3 million. The net benefit from the turn-around, at lower rates, will occur when the underlying entry is reversed.

It is important to remember that the September 30, 1985 balance is not appropriate to use to determine the benefit of the turn-around of tax/book timing differences at a tax rate lower than the rate(s) at which the deferred tax reserve was established. As we described in our accompanying letter, only the deferred tax balances at September 30, 1986 and thereafter are relevant to the quantification of the turn-around benefits.

LACLEDE GAS COMPANY
AMOUNT OF "EXCESS" DEFERRED INCOME TAXES
DEFERRED TAX BALANCES AS AT SEPTEMBER 30, 1985

SOURCE OF TIMING DIFFERENCE:	DEFERRED TAX BALANCE AT 9/30/85	"EXCESS" DEFERRED TAX RESERVES
PROPERTY RELATED RESERVES:		
LIBERALIZED DEPRECIATION	\$16,101,300	\$4,290,400
DEPRECIATION CAPITALIZED	-113,200	-26,600
GAIN ON REACQUIRED DEBT	2,650,400	593,400
LACLEDE PIPELINE LIBERALIZED DEPRECIATION	114,900	29,300
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TOTAL-PROPERTY RELATED RESERVES	\$18,753,400	\$4,886,500
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OTHER RESERVES:		
LP GAS, P.G.A., AND WINTER SERVICE DEFERRALS	\$5,426,500	\$1,403,900
PURCHASED NATURAL GAS COST DEFERRAL	2,253,400	135,500
RESIDENTIAL CONSERVATION SURVEY	-319,100	-75,800
INJURIES AND DAMAGES RESERVES	-516,000	-70,200
POST-RETIREMENT DEATH BENEFITS	-1,679,100	-381,200
DEFERRED COMPENSATION	-886,100	-210,400
CUSTOMER INFORMATION SYSTEM	83,700	19,900
EXPLORATION AND DEVELOPMENT	6,096,700	1,468,700
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TOTAL-OTHER RESERVES	\$10,460,000	\$2,290,400
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