Exhibit No.:	
Issue:	*Rate of Return*
Witness:	*Matthew J. Barnes*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Direct Testimony*
Case No.:	*GR-2007-0208*
Date Testimony Prepared:	*May 04, 2007*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

MATTHEW J. BARNES

LACLEDE GAS COMPANY

CASE NO. GR-2007-0208

Jefferson City, Missouri
May 2007

TABLE OF CONTENTS OF
DIRECT TESTIMONY OF
MATTHEW J. BARNES
LACLEDE GAS COMPANY
CASE NO. GR-2007-0208

DIRECT TESTIMONY

OF

MATTHEW J. BARNES

LACLEDE GAS COMPANY

CASE NO. GR-2007-0208

Q. Please state your name.

A. My name is Matthew J. Barnes.

Q. Please state your business address.

A. My business address is P.O. Box 360, Jefferson City, Missouri 65102.

Q. What is your present occupation?

A. I am employed as a Utility Regulatory Auditor III for the Missouri Public Service Commission (Commission). I accepted the position of Utility Regulatory Auditor I in June 2003 and have since been promoted.

Q. Were you employed before you joined the Commission's Staff (Staff)?

A. Yes, I was employed by the Missouri Department of Natural Resources (MDNR) as an Account Clerk II. Prior to MDNR I was employed by the Missouri Department of Conservation as an Auditor Aide.

Q. What is your educational background?

A. I earned a Bachelor of Science degree in Business Administration with an emphasis in Accounting from Columbia College in December 2002. I earned a Masters in Business Administration with an emphasis in Accounting from William Woods University in May 2005.

Q. Have you filed testimony in other cases before this Commission?

A. Yes. Please see Schedule MJB 1.

Q. Have you participated in other rate cases in the past?

A. Yes. I participated in Case No. GR-2003-0517, AmerenUE; Case No. ER-2004-0034, Aquila, Inc.; Case No. ER-2004-0570, The Empire District Electric Company; and Case No. WR-2003-0500, Missouri-American Water Company. I was involved in preparing the schedules and review of testimony for the Department Manager and Auditor IV concerning rate of return.

Q. Have you made recommendations in any other cases before this Commission?

A. Yes, I have made recommendations on finance, merger and acquisition cases before this Commission.

Q. Have you attended any schools, conferences or seminars specific to utility finance and utility regulation?

A. Yes. I attended "The Rate Case Process in Missouri" presented by Staff of the Commission in March 2005. I have also attended the Financial Research Institute seminars in 2003 and 2004 that covered topics such as rate of return, restructuring of electric utility companies and the future operations of utility companies.

Q. What is the purpose of your testimony in this case?

A. I present the Staff's recommendation to the Commission of a fair and reasonable rate of return for the Missouri jurisdictional gas utility rate base of Laclede Gas Company (Laclede Gas), a regulated subsidiary of The Laclede Group, Inc. (Laclede Group).

Q. Have you prepared a written analysis of the cost of capital for Laclede Gas?

A. Yes. I am sponsoring a study entitled "An Analysis of the Cost of Capital for Laclede Gas Company, Case No. GR-2007-0208" consisting of 21 schedules which are attached to this direct testimony as "An Analysis of the Cost of Capital."

EXECUTIVE SUMMARY

A. Staff's recommendation is that the Commission authorize an overall rate of return (ROR) of 7.52 percent to 8.04 percent for Laclede Gas. This rate of return recommendation is based on a recommended return on common equity (ROE) of 8.20 percent to 9.20 percent applied to The Laclede Group's March 31, 2007 common equity ratio of 52.37 percent. The recommendation is driven by my comparable company analysis using the discounted cash flow (DCF) model. The DCF model is the most widely used and reliable model available to estimate the cost of common equity for a utility company.

I used an embedded cost of long-term debt of 6.78 percent based on The Laclede Group's embedded cost of long-term debt provided to Staff in an e-mail dated April 24, 2007 from Company witness Glenn Buck.

I used The Laclede Group's actual consolidated capital structure, which includes all of The Laclede Group's operations, including non-regulated debt, as of March 31, 2007 as the basis for the Staff's capital structure recommendation.

I determined the Staff's recommended ROE by applying the DCF model to a comparable group of natural gas distribution companies. I then evaluated a number of factors to test the reasonableness of this recommendation. A complete and detailed explanation of the Staff's recommended ROE starts on page 11, line 5 of this testimony.

LEGAL PRINCIPLES

Q. What legal principles do you understand constitute the basis for the assessment of the justness and reasonableness of rate-of-return recommendations?

A. I understand that the *Bluefield Water Works and Improvement Company* (1923) (*Bluefield*) and the *Hope Natural Gas Company* (1944) (*Hope*) cases have been cited as the two most influential cases for the legal framework to determine a fair and reasonable rate of return.

Q. What do you understand to be the teachings of the *Bluefield* case?

A. In the Bluefield case the Supreme Court ruled that a fair return would be:

1. A return "generally being made at the same time" in that "general part of the country;"

2. A return achieved by other companies with "corresponding risks and uncertainties;" and

3. A return "sufficient to assure confidence in the financial soundness of the utility."

The Court specifically stated:

> A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time and become too high or too low by changes

affecting opportunities for investment, the money market and business conditions generally.

Q. What do you understand to be the teachings of the *Hope* case?

A. In the *Hope* case, the Court stated that:

> The rate-making process . . . , *i.e.*, the fixing of "just and reasonable" rates, involves a balancing of the investor and the consumer interests. Thus we stated . . . that "regulation does not insure that the business shall produce net revenues" . . . it is important that there be enough revenue not only for operating expenses but also for the capital costs of the business. These include service on the debt and dividends on the stock . . . . By that standard the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.

The *Hope* case restates the concept of comparable returns to include those not authorized by other enterprises that have "corresponding risks." The Supreme Court also noted in this case that regulation does not guarantee profits to a utility company.

Q. Do you have any further comments on the use of cost of capital models to determine a fair rate of return?

A. Yes. See Appendix A.

CURRENT ECONOMIC CONDITIONS

Q. What are the main points of the current capital and economic environment that the Commission should consider in determining a reasonable ROE for Laclede Gas?

A. The Federal Reserve (Fed) steadily raised the Fed Funds rate by 25 basis points at every Federal Open Market Committee meeting from June 30, 2004 through June 29, 2006. This began after the Fed had kept the Fed Funds Rate at a 46-year low of 1.00 percent for a full year. The Fed raised the Fed Funds Rate seventeen consecutive times

to its current level of 5.25 percent. Please see Appendix B for a discussion of historical economic conditions which Laclede Gas has operated in.

Q. How have utility bond yields responded to the tightening of U.S. monetary policy?

A. A review of Schedules 5-1 and 5-3 shows that average utility bond yields fell to an average annual yield of 5.39 percent during June 2005, which was the lowest yield in the past 26 years. Utility bond yields averaged 5.91 percent in February 2007.

Q. Would you explain the changes in utility bond yields and Thirty-Year U.S. Treasury yields in a little more detail?

A. Cost of capital changes for utilities are closely reflected in the yields on public utility bonds and yields on Thirty-Year U.S. Treasury Bonds (see attached Schedules 5-1 and 5-2). Schedule 5-3, attached to this direct testimony, shows how closely Mergent's publication of the "Public Utility Bond Yields" have followed the yields of Thirty-Year U.S. Treasury Bonds during the period from 1980 to the present. The average spread for this period between these two composite indices has been 150 basis points, with the spread ranging from a low of 80 basis points to a high of 304 basis points (see attached Schedule 5-4). Although there may be times when utility bond yield changes may lag the yield changes in the Thirty-Year U.S. Treasury Bond, these spread parameters show just how tightly correlated utilities' cost of capital is with the level of interest rates on long-term treasuries. For a detailed explanation of historical economic conditions please see Schedule B.

Q. What is the significance of the current economic conditions to Laclede and what conclusions should the Commission draw from it?

A. The significance of the current economic conditions to Laclede is that yields on public utility bonds and yields on Thirty-Year Treasury bonds are low by recent historical standards. An example of recent historical standards is the double digit yields for long-term U.S. Government bonds and corporate bonds from the late 1970's to the mid 1980's. A lower interest rate environment means a lower cost of capital and a higher interest rate environment means a higher cost of capital for a utility. The current yields on U.S. Government bonds and corporate bonds, while low, are now more normal by historical standards. The Commission should take the lower and more normal yields on U.S. Government and corporate bonds into consideration when authorizing a rate of return for Laclede. For a history of long-term investment grade Baa (Moody's equivalent of S&P's BBB credit rating) corporate bond yields, please see Schedule 5-5.

ECONOMIC PROJECTIONS

Q. Do you have any information on economic projections?

A. Yes. See Appendix C for projections on inflation, interest rates and gross domestic product (GDP).

BUSINESS OPERATIONS OF THE LACLEDE GROUP

Q. Please describe The Laclede Group's business operations.

A. The following is from The Laclede Group's website, www.thelacledegroup.com:

> The Laclede Group, Inc. is a public utility holding company committed to providing reliable natural gas service through its regulated core utility operations while engaging in non-regulated activities that provide opportunities for sustainable growth. Its primary subsidiary -- Laclede Gas Company -- is the largest natural gas distribution utility in Missouri, serving approximately 631,000 residential, commercial and industrial customers in the

City of St. Louis and ten other counties in eastern Missouri. Its primary non-regulated activities include SM&P Utility Resources, Inc., a major underground facilities locating and marking service business headquartered in Carmel, Indiana, and Laclede Energy Resources, Inc., a natural gas marketer located in St. Louis, Missouri.

The Laclede Group's total operating revenues were $1,240,395,000 for the twelve months ended March 31, 2007, versus $1,398,015,000 for the twelve months ended March 31, 2006. The 2006 revenues resulted in an overall net income applicable to common stock of $39,906,000 and earnings per share (EPS) of $1.86 as compared to the twelve months ended March 31, 2006 net income applicable to common stock of $47,097,000 and an EPS of $2.22. These revenues and net incomes were generated from total assets of $1,555,229,000 for the period ended March 31, 2007, and $1,533,541,000 for the period ended March 31, 2006. These figures were taken from The Laclede Group's Form 10-Q SEC filing for the period ended March 31, 2007.

Q. What is The Laclede Group's current credit rating?

A. The Laclede Group's current Standard & Poor's Corporation's (S&P) corporate credit rating is "A" with a Stable outlook.

Q. What is The Laclede Group's current business risk profile?

A. The Laclede Group's current business risk profile is a '3'.

Q. What is a business risk profile?

A. S&P publishes three financial guidelines that reflect the relative business risk among companies in the utility sector. The three financial guidelines are Funds From Operations/Interest Coverage, Funds From Operations/Total Debt, and Total Debt to Total Capital. Each guideline is ranked on a scale from '1' to '10', with '1' being the least risky

and '10' being the most risky. The Laclede Group is currently rated 'A' with a business profile of '3'.

Q. What is business risk?

A. Investopedia's website, www.investopedia.com defines business risk as, "A company's risk is composed of financial risk, which is linked to debt, and risk, which is often linked to economic climate. If a company is entirely financed by equity, it would pose almost no financial risk, but, it would be susceptible to business risk or changes in the overall economic climate."

Q. Do you have historical financial information on Laclede?

A. Yes. Schedules 7 and 8 present historical capital structures and selected financial ratios from 2002 through 2006 for The Laclede Group. The Laclede Group's common equity ratio has ranged from a high of 45.19 percent to a low of 36.33 percent from 2002 through 2006. The Laclede Group's earned ROE for the last five years has ranged from a low of 7.80 percent in 2002 to a high of 12.50 percent in 2006. The Laclede Group's earned 2006 ROE was 12.50 percent. In a March 16, 2007, report in *The Value Line Investment Survey: Ratings & Reports*, Value Line estimates that The Laclede Group's projected ROE will be 9.0 percent for 2007 and 9.5 percent for 2008.

The Laclede Group's historical funds from operations (FFO) interest coverage ratios for the previous five years has ranged from a low of 3.22 times in 2006, to a high of 4.02 times in 2004. The Laclede Group's FFO to average total debt ratios for the previous five years has ranged from a low of 15 percent in 2003, to a high of 22 percent in 2005.

DETERMINATION OF THE COST OF CAPITAL

Q. How do you determine a utility company's cost of capital?

A. The total dollars of capital for the utility company are determined as of a specific point in time. This total dollar amount is then apportioned into each specific capital component; i.e. common equity, long-term debt, preferred stock and short-term debt. A weighted cost for each capital component is determined by multiplying each capital component ratio by the appropriate embedded cost or by the estimated cost of common equity component. The individual weighted costs are summed to arrive at a total weighted cost of capital. This total weighted average cost of capital (WACC) is synonymous with the fair rate of return for the utility company.

Q. Why is a total WACC synonymous with a fair rate of return?

A. From a financial viewpoint, a company employs different forms of capital to support or fund the assets of the company. Each different form of capital has a cost and these costs are weighted proportionately to fund each dollar invested in the assets.

Assuming that the various forms of capital are within a reasonable balance and are costed correctly, the resulting total WACC, when applied to rate base, will provide the funds necessary to service the various forms of capital. Thus, the total WACC corresponds to a fair rate of return for the utility company.

CAPITAL STRUCTURE AND EMBEDDED COSTS

Q. What capital structure did you use for Laclede Gas?

A. The capital structure I have used for this case is The Laclede Group's capital structure on a consolidated basis, as of March 31, 2007. March 31, 2007 is the end of the Staff's test year update period in this case. Schedule 9 presents The Laclede Group's capital

structure and associated capital ratios. The resulting capital structure consists of 52.37 percent common stock equity, 47.53 percent long-term debt, and .10 percent preferred stock.

The amount of long-term debt outstanding on March 31, 2007 was $390,442,316 and includes current maturities due within one year. The amount of long-term debt in the capital structure is shown on Schedule 10 attached to this direct testimony.

Short-term debt was not included in the capital structure because The Laclede Group's Construction Work In Progress (CWIP) balance exceeded its short-term debt balance.

Q. What was the embedded cost of long-term debt for The Laclede Group as of March 31, 2007?

A. The embedded cost of long-term debt for The Laclede Group as of March 31, 2007, was 6.78 percent. Please see Schedule 10.

Q. What was the embedded cost of preferred stock for The Laclede Group as of March 31, 2007?

A. The embedded cost of preferred stock for The Laclede Group as of March 31, 2007, was 4.92 percent. Please see Schedule 11.

COST OF COMMON EQUITY

Q. How did you analyze those factors by which the cost of common equity for Laclede may be determined?

A. In order to calculate the cost of common equity for Laclede, I performed a comparable company analysis of six companies. I have selected the DCF model (explained

in detail in Appendix D) as the primary tool to determine the cost of common equity for Laclede, but I also used the Capital Asset Pricing Model (CAPM) explained in detail in Appendix E to check the reasonableness of the DCF results.

Q. Can you directly analyze Laclede Gas' cost of common equity?

A. No. I can not directly analyze Laclede Gas' cost of common equity because it is a subsidiary of The Laclede Group, and accordingly Laclede Gas is not publicly traded and it does pay a dividend.

Q. How did you analyze Laclede Gas' cost of common equity?

A. I decided to do an analysis of the cost of common equity for a comparable group of natural gas distribution companies because these companies have similar gas operations that are comparable to Laclede Gas.

Q. How did you determine which companies were comparable gas utility companies?

A. I first relied on the *Edward Jones Natural Gas Industry Summary* dated December 31, 2006 for the current classification system, which specifies companies that they consider to be natural gas distribution companies. Because Laclede is a natural gas distribution utility, this helps ensure the selection of companies that are similar in risk profile to that of Laclede's business operations. Schedule 12 presents a current list of the 14 companies classified by Edward Jones as natural gas distribution utility companies. I then applied the following criteria to these 14 companies in order to select my ultimate proxy group:

1. Stock publicly traded: This criterion did not eliminate any companies;
2. Information printed in Value Line: This criterion did not eliminate any companies;

3. Ten years of data available: This criterion eliminated one company;

4. Positive DPS annualized compound growth rate from 1996 – 2006: This criterion eliminated one additional company;

5. Total capitalization less than $5 billion: This criterion did not eliminate any companies;

6. Two sources for projected growth available with one of those being from Value Line: This criterion eliminated three additional companies;

7. At least investment grade: This criterion did not eliminate any additional companies.

This resulted in a group of six publicly-traded gas utility companies. I removed Atmos Energy Corporation and Cascade Natural Gas from the comparable group because Atmos is still considered to be transitioning to a much larger natural gas distribution company from the purchase of TXU Gas and Cascade Natural Gas is currently involved in a merger. The comparables are listed on Schedule 13. I removed The Laclede Group from the comparable companies, but performed a stand-alone DCF analysis of the company separately from the comparables to provide the Commission the results of the DCF and the CAPM models on a Laclede Group specific basis. I want to emphasize that this is for informational purposes only and Staff did not give any weight to the results of this stand-alone analysis in making its ROE recommendation in this case.

Q. How did you determine the cost of common equity of each of the comparables?

A. I calculated a DCF cost of common equity for each of the comparables. The first step was to calculate a growth rate. I reviewed the actual dividends per share (DPS), earnings per share (EPS), and book values per share (BVPS) as well as projected EPS growth rates for the comparables. Schedule 14-1 lists the annual compound growth rates for DPS, EPS, and BVPS for the past ten years. Schedule 14-2 lists the annual compound growth rates

for DPS, EPS, and BVPS for the past five years. Schedule 14-3 presents the averages of the growth rates shown in Schedules 14-1 and 14-2. Schedule 15 presents the average historical growth rates and the projected growth rates for the comparables. The projected EPS growth rates were obtained from three outside sources; I/B/E/S Inc.'s *Institutional Brokers Estimate System*, Standard & Poor's Corporation's *Earnings Guide*, and *The Value Line Investment Survey: Ratings and Reports*. The three projected EPS growth rates were averaged to develop an average projected growth rate of 4.68 percent, which was averaged with the historical growth rates to produce a historical and projected growth rate of 4.94 percent as shown on Schedule 15. I chose 5.00 percent as the mid-point of my growth rate range for the comparable group of 4.50 percent to 5.50 percent.

The next step was to calculate an expected yield for each of the comparables. The yield term of the DCF model is calculated by dividing the amount of DPS expected to be paid over the next twelve months by the market price per share of the firm's stock. Even though a strict technical application of the model requires the use of a current spot market price, I have chosen to use a monthly average market price for each of the comparables. I used this averaging technique to minimize the effects on the dividend yield which can occur due to daily volatility in the stock market. Schedule 16 presents the average high / low stock price for the period of November 1, 2006, through February 28, 2007, for each comparable. Column 1 of Schedule 17 indicates the expected dividend for each comparable over the next 12 months as projected by *The Value Line Investment Survey: Ratings & Reports*, June 16, 2006. Column 3 of Schedule 17 shows the projected dividend yield for each of the comparables. The dividend yield for each comparable was averaged to calculate the projected dividend yield for the comparables of 3.66 percent.

As illustrated in Column 5 of Schedule 17, the average cost of common equity based on the projected dividend yield added to the average of historical and projected growth is 8.60. Giving weight to both the projected and historical growth rates, my DCF proxy group cost of common equity estimation is 8.20 percent to 9.20 percent.

Q. How did you verify the reasonableness of your DCF model-derived cost of common equity for the comparable company group?

A. I performed a CAPM cost-of-common-equity analysis for the comparables.

Q. What did you use for your risk-free rate?

A. For purposes of this analysis, the risk-free rate I used was the yield on Thirty-Year U.S. Treasury Bonds. I determined the appropriate rate to be the average yield for the month of February 2007. The average yield of 4.82 percent was provided on the St. Louis Federal Reserve website.

For the second variable, beta, I researched Value Line in order to find the betas for my comparable group of companies. The average beta for the comparable group was .81. Schedule 18 contains the appropriate betas for the comparables.

The final term of the CAPM is the market risk premium ($R_m - R_f$). The market risk premium represents the expected return from holding the entire market portfolio less the expected return from holding a risk-free investment.

Q. Please explain your application of the CAPM using historical return differences.

A. The first risk premium used was based on the arithmetic average from 1926 to 2006, which was 6.50 percent. The second risk premium was based on the geometric average from 1926 to 2006, which was determined to be 5.00 percent. The third risk

premium was based on the geometric average from 1997 to 2006, which was determined to be .59 percent. These risk premiums were taken from Ibbotson Associates, Inc.'s *Stocks, Bonds, Bills, and Inflation: 2007 Yearbook.*

Schedule 18 presents the CAPM analysis of the comparables using historical actual return spreads to estimate the required equity risk premium. The CAPM analysis produces an estimated cost of common equity of 10.07 percent for the comparables when using the long-term arithmetic average risk premium period; using the long-term geometric average produces an estimated cost of common equity of 8.86 percent and using the short-term risk premium period produces an estimated cost of common equity of 5.30 percent. The long-term geometric average risk premium CAPM results supports a cost of common equity similar to what is currently produced in performing Staff's DCF analysis.

Q. Would you summarize your cost of common equity analysis for Laclede?

A. I performed a DCF and CAPM cost of common equity analysis on a group of six comparable companies. The results are summarized below:

	DCF	**CAPM (Historical)**
Comparable Companies	8.20% - 9.20%	10.07%; 8.86%; 5.30%

Q. Based on your analysis, what is your recommended return on common equity for Laclede in this proceeding?

A. I recommend a return on common equity in the range of 8.20 percent to 9.20 percent based on the results of my comparable-company-DCF analysis.

RATE OF RETURN FOR LACLEDE

Q. How are the returns you developed for each capital component used in the ratemaking approach you have adopted for Laclede?

A. The cost of service ratemaking method was adopted in this case. This approach develops the public utility's revenue requirement. The cost of service (revenue requirement) is based on the following components: operating costs, rate base and a return allowed on the rate base (see Schedule 20).

It is my responsibility to calculate and recommend a rate of return that should be authorized on the Missouri jurisdictional gas utility rate base of Laclede. Under the cost of service ratemaking approach, a weighted cost of capital in the range of 7.52 to 8.04 percent was developed for Laclede's gas utility operations (see Schedule 21). This rate was calculated by applying an embedded cost of long-term debt of 6.78 percent, an embedded cost of preferred stock of 4.92 percent and a cost of common equity range of 8.20 percent to 9.20 percent to a capital structure consisting of 52.37 percent common equity, .10 percent preferred stock and 47.53 percent long-term debt. Therefore, from a financial prospective I am recommending that Laclede's gas utility operations be allowed to earn a return on its original cost rate base in the range of 7.52 to 8.04 percent.

It is my expert opinion that, through my analysis, I have developed a fair and reasonable return, which, when applied to Laclede's Missouri jurisdictional rate base, will allow the Company the opportunity to earn the revenue requirement developed in this rate case.

Q. Did you calculate a Company specific DCF for The Laclede Group?

A. Yes, I did.

Q. What was the result?

A. The result of the company specific DCF for The Laclede Group was 6.96 percent using the average projected growth rates and 7.29 percent using I/B/E/S growth rates.

Q. Do you recommend that the Commission adopt your company specific DCF results?

A. No I do not recommend that the Commission adopt the company specific DCF results. These results are for informational purposes only and I do not believe that the results would be sufficient to attract capital for Laclede Gas.

Q. Is it possible that Staff may propose a Straight Fixed Variable (SFV) rate design for Laclede Gas in this proceeding?

A. Yes. The Staff has proposed SFV rate designs for Atmos Energy Corporation and Missouri Gas Energy in recent cases. The Staff will file its direct rate design testimony in this proceeding on May 18, 2007.

Q. Has the Commission determined that a SFV rate design is less risky for a natural gas distribution company?

A. Yes. In the Report and Order for Missouri Gas Energy (MGE), Case No. GR-2006-0422, the Commission determined that a reduction of 32.5 basis points should be deducted from MGE's ROE on account of the SFV rate design authorized by the Commission in the same Report and Order.

Q. In the event the Commission adopts an SFV rate design for Laclede Gas in this case, do you recommend that the Commission adopt the same type of reduction to the Company's ROE in this case?

A. A quantification of the effect on ROE of the reduction in risk due to the SFV rate design is very difficult to measure. I recommend that if the Commission deems the SFV rate design to materially lower Laclede Gas' risk, then the Commission should move to the lower end of my ROE range.

Q. Please summarize your recommendation for the Commission.

A. I recommend the Commission approve for Laclede Gas a ROE in the range of 8.20 percent to 9.20 percent and a ROR in the range of 7.52 percent to 8.04 percent applied to The Laclede Group's consolidated capital structure.

Q. Does this conclude your prepared direct testimony?

A. Yes, it does.

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-2007-0208

AFFIDAVIT OF MATTHEW J. BARNES

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Matthew J. Barnes, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 19 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Matthew J. Barnes

Subscribed and sworn to before me this 3rd day of May, 2007.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
County of Cole
My Commission Exp. 07/01/2008

Notary Public

SUMMARY
OF

MATTHEW J. BARNES

CASE PARTICIPATION

Date Filed	Issue	Case Number	Exhibit	Case Name
10/6/2006	Rate of Return/ Cost of Capital	ER20060314	Surrebuttal	Kansas City Power & Light Company
9/8/2006	Rate of Return	ER20060314	Rebuttal	Kansas City Power & Light Company
9/13/2006	Rate of Return	GR20060387	Direct	Atmos Energy Corporation
10/15/2004	Rate of Return	TC20021076	Supplemental Direct	BPS Telephone Company
11/7/2006	Rate of Return	ER20060314	True-Up	Kansas City Power & Light Company
11/7/2006	Cost of Capital	ER20060314	True-Up	Kansas City Power & Light Company
8/8/2006	Rate of Return	ER20060314	Direct	Kansas City Power & Light Company
11/13/2006	Rate of Return	GR20060387	Surrebuttal	Atmos Energy Corporation
3/8/2006	Transaction Structure	TM20060272	Rebuttal	Alltel Missouri, Inc.
1/12/2007	Rate of Return	WR20060425	Surrebuttal	Algonquin Water Resources of Missouri LLC

SUMMARY
OF

MATTHEW J. BARNES

CASE PARTICIPATION

Date Filed	Issue	Case Number	Exhibit	Case Name
12/28/2006	Rate of Return	WR20060425	Rebuttal	Algonquin Water Resources of Missouri LLC
12/1/2006	Rate of Return	WR20060425	Direct	Algonquin Water Resources of Missouri LLC
11/15/2005	Transaction Structure	IO20060086	Rebuttal	Sprint Nextel Corporation
11/13/2006	Rate of Return	GR20060387	Rebuttal	Atmos Energy Corporation

MATTHEW J. BARNES

TESTIMONY APPENDICIES A THROUGH E

LACLEDE GAS COMPANY

CASE NO. GR-2007-0208

Q. Is your recommendation of the cost of common equity consistent with a fair rate of return on common equity?

A. Yes. It is my expert opinion that my recommendation as to the cost of common equity is consistent with a fair rate of return on common equity. It is generally recognized that authorizing an allowed return on common equity based on a utility's cost of common equity is consistent with a fair rate of return. It is for this very reason that the discounted cash flow (DCF) model is widely recognized as an appropriate model to utilize in arriving at a reasonable recommended return on equity that should be authorized for a utility. The concept underlying the DCF model is to determine the cost of common equity capital to the utility, which reflects the current economic and capital market environment. For example, a company may achieve a return on common equity that is higher than its cost of common equity. This situation will tend to increase the share price. However, this does not mean that this past achieved return is the barometer for what would be a fair authorized return in the context of a rate case. It is the lower cost of capital that should be recognized as a fair authorized return. If a utility continues to be allowed a return on common equity that is not reflective of today's current low-cost-of-capital environment, then this will result in the possibility of excessive returns.

The authorized return should provide a fair and reasonable return to the investors of the company, while ensuring that ratepayers do not support excessive earnings that could result from the utility's monopolistic powers. However, this fair and reasonable rate does not necessarily guarantee revenues or the continued financial integrity of the utility.

A reasonable return may vary over time as economic conditions, such as the level of interest rates, and business conditions change. Therefore, the past, present and projected economic and business conditions must be analyzed in order to calculate a fair and reasonable rate of return.

HISTORIC ECONOMIC CONDITIONS

One of the most commonly accepted indicators of economic conditions is the discount rate set by the Federal Reserve Board (Federal Reserve or Fed). The Federal Reserve tries to achieve its monetary policy objectives by controlling the discount rate (the interest rate charged by the Federal Reserve for loans of reserves to depository institutions) and the Federal (Fed) Funds Rate (the overnight lending rate between banks). However, recently the Fed Funds Rate has become the primary means for the Federal Reserve to achieve its monetary policy, and the discount rate has become more of a symbolic interest rate. This explains why the Federal Reserve's decisions now focus on the Fed Funds rate and this is reflected in the discussion of interest rates. It should also be noted that on January 9, 2003, the Federal Reserve changed the administration of the discount window. Under the changed administration of the discount window an eligible institution does not need to exhaust other sources of funds before coming to the discount window, nor are there restrictions on the purposes for which the borrower can use primary credit. This explains why the discount rate jumped from 0.75 percent to 2.25 percent on January 9, 2003, when the Fed Funds rate didn't change. Therefore, discount rates before January 9, 2003, are not comparable to discount rates after January 9, 2003.

At the end of 1982, the U.S. economy was in the early stages of an economic expansion, following the longest post-World War II recession. This economic expansion began when the Federal Reserve reduced the discount rate seven times in the second half of 1982 in an attempt to stimulate the economy. This reduction in the discount rate led to a reduction in the prime interest rate (the rate charged by banks on short-term loans to borrowers with high credit ratings) from 16.50 percent in June 1982, to 11.50 percent in

December 1982. The economic expansion continued for approximately eight years until July 1990, when the economy entered into a recession.

In December 1990, the Federal Reserve responded to the slumping economy by lowering the discount rate to 6.50 percent (see Schedules 2-1 and 2-2). Over the next year-and-a-half, the Federal Reserve lowered the discount rate another six times to a low of 3.00 percent, which had the effect of lowering the prime interest rate to 6.00 percent (see Schedules 3-1 and 3-2).

In 1993, perhaps the most important factor for the U.S. economy was the passage of the North American Free Trade Agreement (NAFTA). NAFTA created a free trade zone consisting of the United States, Canada and Mexico. The rate of economic growth for the fourth quarter of 1993 was one the Federal Reserve believed could not be sustained without experiencing higher inflation. In the first quarter of 1994, the Federal Reserve took steps to try to restrict the economy by increasing interest rates. As a result, on March 24, 1994, the prime interest rate increased to 6.25 percent. On April 18, 1994, the Federal Reserve announced its intention to raise its targeted interest rates, which resulted in the prime interest rate increasing to 6.75 percent. The Federal Reserve took action again on May 17, 1994, by raising the discount rate to 3.50 percent. The Federal Reserve took three additional restrictive monetary actions, with the last occurring on February 1, 1995. These actions raised the discount rate to 5.25 percent, and in turn, banks raised the prime interest rate to 9.00 percent.

The Federal Reserve then reversed its policy in late 1995 by lowering its target for the Fed Funds Rate by 0.25 percentage points on two different occasions. This had the effect of lowering the prime interest rate to 8.50 percent. On January 31, 1996, the Federal Reserve lowered the discount rate to a rate of 5.00 percent.

The actions of the Federal Reserve from 1996 through 2000 were primarily focused on keeping the level of inflation under control, and it was successful. The inflation rate, as measured by the *Consumer Price Index - All Urban Consumers* (CPI), had never been higher than 3.70 percent during this period. The level of the CPI stood at 2.40 percent for the twelve months ending February 28, 2007 (see attached Schedules 4-1, 4-2 and 6).

The unemployment rate was 4.40 percent as of March 2007 (see Schedule 6), which is low by historical standards. A lower unemployment rate probably provides the Fed with some comfort to continue to raise the Fed Funds rate if it believes it is needed to contain inflation.

The combination of low inflation and low unemployment had led to a prosperous economy from 1993 through 2000 as evidenced by the fact that real gross domestic product (GDP) of the United States increased every quarter during this period. However, GDP actually declined for the first three quarters of 2001, indicating there was a contraction in the economy during these three quarters. This contraction of GDP for more than two quarters in a row meets the textbook definition of a recession. According to the National Bureau of Economic Research, the recession began in March of 2001 and ended eight months later. Since the recession ended, GDP had been low up until the second quarter of 2003, but since the second quarter of 2003, GDP has been fairly healthy. GDP is currently at a rate of 2.50 percent for the fourth quarter of 2006 (see attached Schedule 6).

INFLATIONARY ESTIMATIONS AND EXPECTATIONS FOR 2007 THROUGH 2009

The Value Line Investment Survey: Selection & Opinion, February 23, 2007, estimates inflation to be 2.3 percent for 2007, 2.3 percent for 2008 and 2.4 percent for 2009. The Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2008-2017,* issued January 2007, states that inflation is expected to be 1.9 percent for 2007, 2.3 percent for 2008 and 2.2 percent for 2009 (see attached Schedule 6).

Short-term interest rates, those measured by three-month U.S. Treasury Bills, are estimated to be 5.0 percent in 2007, 4.9 percent in 2008 and 4.9 percent in 2009 according to Value Line's predictions. Value Line expects the long-term Thirty-Year U.S. Treasury Bonds to average 5.0 percent in 2007, 5.2 percent in 2008 and 5.5 percent in 2009. The Congressional Budget Office's, *The Budget and Economic Outlook: Fiscal Years 2008-2017,* stated that the three-month U.S. Treasury Bill is estimated to be 4.80 percent in 2007, 4.50 percent in 2008, and 4.4 percent in 2009.

The current rate for three-month U.S. Treasury Bills was 4.94 percent as of March 1, 2007, as noted on the St. Louis Federal Reserve website, http://research.stlouisfed.org/fred2/series/TB3MS/22. The current rate for Thirty-Year U.S. Treasury Bonds was 4.87 percent as of March 21, 2007, as noted on the CBS MarketWatch website, http://www.marketwatch.com.

GDP is a benchmark utilized by the Commerce Department to measure economic growth within the U.S. borders. Real GDP is measured by the actual GDP, adjusted for inflation. Value Line stated that real GDP growth is expected to increase by 2.8 percent in 2007, 3.0 percent in 2008 and 3.2 percent in 2009. The Congressional Budget Office, *The*

Budget and Economic Outlook: Fiscal Years 2008-2017, stated that real GDP is expected to increase by 2.3 percent in 2007, 3.0 percent in 2008 and 3.1 percent in 2009 (see attached Schedule 6).

In summary, when combining the previously mentioned sources, inflation is expected to be in the range of 1.9 to 2.4 percent, increase in real GDP in the range of 2.3 percent to 3.2 percent and 30-Year Treasury Bonds are expected to range from 5.0 percent to 5.5 percent.

THE DCF MODEL

The DCF model is a market-oriented approach for deriving the cost of common equity. The cost of common equity calculated from the DCF model is inherently capable of attracting capital. This results from the theory that security prices adjust continually over time, so that an equilibrium price exists and the stock is neither undervalued nor overvalued. It can also be stated that stock prices continually fluctuate to reflect the required and expected return for the investor.

The constant-growth form of the DCF model was used in this analysis. This model relies upon the fact that a company's common stock price is dependent upon the expected cash dividends and upon cash flows received through capital gains or losses that result from stock price changes. The interest rate which discounts the sum of the future expected cash flows to the current market price of the common stock is the calculated cost of common equity. This can be expressed algebraically as:

$$\text{Present Price} = \underset{\text{Discounted by k}}{\text{Expected Dividends}} + \underset{\text{Discounted by k}}{\text{Expected Price in 1 year}} \qquad (1)$$

where k equals the cost of equity. Since the expected price of a stock in one year is equal to the present price multiplied by one plus the growth rate, equation (1) can be restated as:

$$\text{Present Price} = \frac{\text{Expected Dividends}}{(1+k)} + \frac{\text{Present Price } (1+g)}{(1+k)} \qquad (2)$$

where g equals the growth rate and k equals the cost of equity. Letting the present price equal P_0 and expected dividends equal D_1, the equation appears as:

$$P_0 = \frac{D_1}{(1+k)} + \frac{P_0(1+g)}{(1+k)} \qquad (3)$$

The cost of equity equation may also be algebraically represented as:

$$k = \frac{D_1}{P_0} + g \qquad (4)$$

Thus, the cost of common stock equity, k, is equal to the expected dividend yield (D_1/P_0) plus the expected growth in dividends (g) continuously summed into the future. The growth in dividends and implied growth in earnings will be reflected in the current price. Therefore, this model also recognizes the potential of capital gains or losses associated with owning a share of common stock.

The discounted cash flow method is a continuous stock valuation model. The DCF theory is based on the following assumptions:

1. Market equilibrium;
2. Perpetual life of the company;
3. Constant payout ratio;
4. Payout of less than 100% earnings;
5. Constant price/earnings ratio;
6. Constant growth in cash dividends;
7. Stability in interest rates over time;
8. Stability in required rates of return over time; and
9. Stability in earned returns over time.

Flowing from these, it is further assumed that an investor's growth horizon is unlimited and that earnings, book values and market prices grow hand-in-hand. Although the entire list of the above assumptions is rarely met, the DCF model is a reasonable working model describing an actual investor's expectations and resulting behaviors.

THE CAPM MODEL

The CAPM describes the relationship between a security's investment risk and its market rate of return. This relationship identifies the rate of return which investors expect a security to earn so that its market return is comparable with the market returns earned by other securities that have similar risk. The general form of the CAPM is as follows:

$$k = R_f + \beta\ (R_m - R_f)$$

where:

k	=	the expected return on equity for a specific security;
R_f	=	the risk-free rate;
β	=	beta; and
$R_m - R_f$	=	the market risk premium.

The first term of the CAPM is the risk-free rate (R_f). The risk-free rate reflects the level of return that can be achieved without accepting any risk. In reality, there is no such risk-free asset, but it is generally represented by U.S. Treasury securities.

The second term of the CAPM is beta (β). Beta is an indicator of a security's investment risk. It represents the relative movement and relative risk between a particular security and the market as a whole (where beta for the market equals 1.00). Securities with betas greater than 1.00 exhibit greater volatility than do securities with betas less than 1.00. This causes a higher beta security to be less desirable to a risk-averse investor and therefore requires a higher return in order to attract investor capital away from a lower beta security.

The final term of the CAPM is the market risk premium ($R_m - R_f$). The market risk premium represents the expected return from holding the entire market portfolio less the expected return from holding a risk-free investment.

AN ANALYSIS OF THE COST OF CAPITAL

FOR

LACLEDE GAS COMPANY

CASE NO. GR-2007-0208

SCHEDULES

BY

MATTHEW J. BARNES

UTILITY SERVICES DIVISION

MISSOURI PUBLIC SERVICE COMMISSION

MAY 2007

List of Schedules

Laclede Gas Company
GR-2007-0208

Federal Reserve Discount Rates Changes and Federal Reserve Funds Rates Changes

Date	Federal Reserve Discount Rate	Federal Reserve Funds Rate	
07/19/82	11.50%		
07/31/82	11.00%		
08/14/82	10.50%		
08/26/82	10.00%		
10/10/82	9.50%		
11/20/82	9.00%		
12/14/82	8.50%		
01/01/83	8.50%		
12/31/83	8.50%		
04/09/84	9.00%		
11/21/84	8.50%		
12/24/84	8.00%		
05/20/85	7.50%		
03/07/86	7.00%		
04/21/86	6.50%		
07/11/86	6.00%		
08/21/86	5.50%		
09/04/87	6.00%		
08/09/88	6.50%		
02/24/89	7.00%		
07/13/90		8.00%	*
10/29/90		7.75%	
11/13/90		7.50%	
12/07/90		7.25%	
12/18/90		7.00%	
12/19/90	6.50%		
01/09/91		6.75%	
02/01/91	6.00%	6.25%	
03/08/91		6.00%	
04/30/91	5.50%	5.75%	
08/06/91		5.50%	
09/13/91	5.00%	5.25%	
10/31/91		5.00%	
11/06/91	4.50%	4.75%	
12/06/91		4.50%	
12/20/91	3.50%	4.00%	
04/09/92		3.75%	
07/02/92	3.00%	3.25%	
09/04/92		3.00%	
01/01/93			
12/31/93	No Changes	No Changes	
02/04/94		3.25%	
03/22/94		3.50%	
04/18/94		3.75%	
05/17/94	3.50%	4.25%	
08/16/94	4.00%	4.75%	
11/15/94	4.75%	5.50%	
02/01/95	5.25%	6.00%	
07/06/95		5.75%	
12/19/95		5.50%	

Date	Federal Reserve Discount Rate	Federal Reserve Funds Rate
01/31/96	5.00%	5.25%
03/25/97		5.50%
12/12/97	5.00%	
01/09/98	5.00%	
03/06/98	5.00%	
09/29/98		5.25%
10/15/98	4.75%	5.00%
11/17/98	4.50%	4.75%
06/30/99	4.50%	5.00%
08/24/99	4.75%	5.25%
11/16/99	5.00%	5.50%
02/02/00	5.25%	5.75%
03/21/00	5.50%	6.00%
05/19/00	6.00%	6.50%
01/03/01	5.75%	6.00%
01/04/01	5.50%	6.00%
01/31/01	5.00%	5.50%
03/20/01	4.50%	5.00%
04/18/01	4.00%	4.50%
05/15/01	3.50%	4.00%
06/27/01	3.25%	3.75%
08/21/01	3.00%	3.50%
09/17/01	2.50%	3.00%
10/02/01	2.00%	2.50%
11/06/01	1.50%	2.00%
12/11/01	1.25%	1.75%
11/06/02	0.75%	1.25%
01/09/03	2.25%**	1.25%
06/25/03	2.00%	1.00%
06/30/04	2.25%	1.25%
08/10/04	2.50%	1.50%
09/21/04	2.75%	1.75%
11/10/04	3.00%	2.00%
12/14/04	3.25%	2.25%
02/02/05	3.50%	2.50%
03/22/05	3.75%	2.75%
05/03/05	4.00%	3.00%
06/30/05	4.25%	3.25%
08/09/05	4.50%	3.50%
09/20/05	4.75%	3.75%
11/01/05	5.00%	4.00%
12/13/05	5.25%	4.25%
01/31/06	5.50%	4.50%
03/28/06	5.75%	4.75%
05/10/06	6.00%	5.00%
06/29/06	6.25%	5.25%

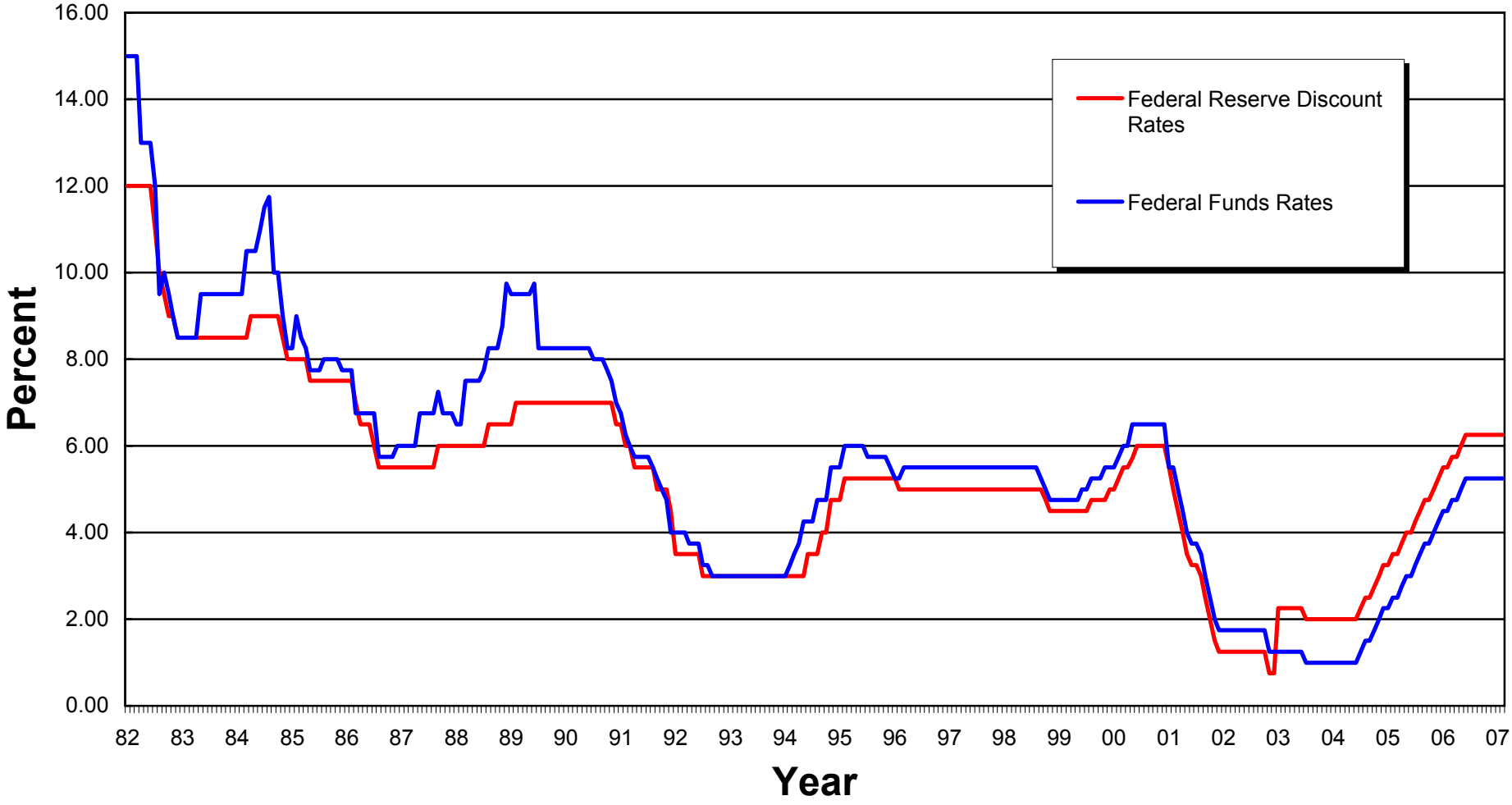
* Staff began tracking the Federal Funds Rate.
**Revised discount window program begins. Reflects rate on primary credit. This revised discount window policy results in incompa
of the discount rates after January 9, 2003 to discount rates before January 9, 2003.

Source:
Federal Reserve Discount rate http://www.newyorkfed.org/markets/statistics/dlyrates/fedrate.html
Federal Reserve Funds rate http://www.newyorkfed.org/markets/statistics/dlyrates/fedrate.html

Note: Interest rates as of December 31 for each year are underlined.

Federal Reserve Discount Rates and Federal Funds Rates

1982 - 2007



Schedule 2-2

SCHEDULE 2-2

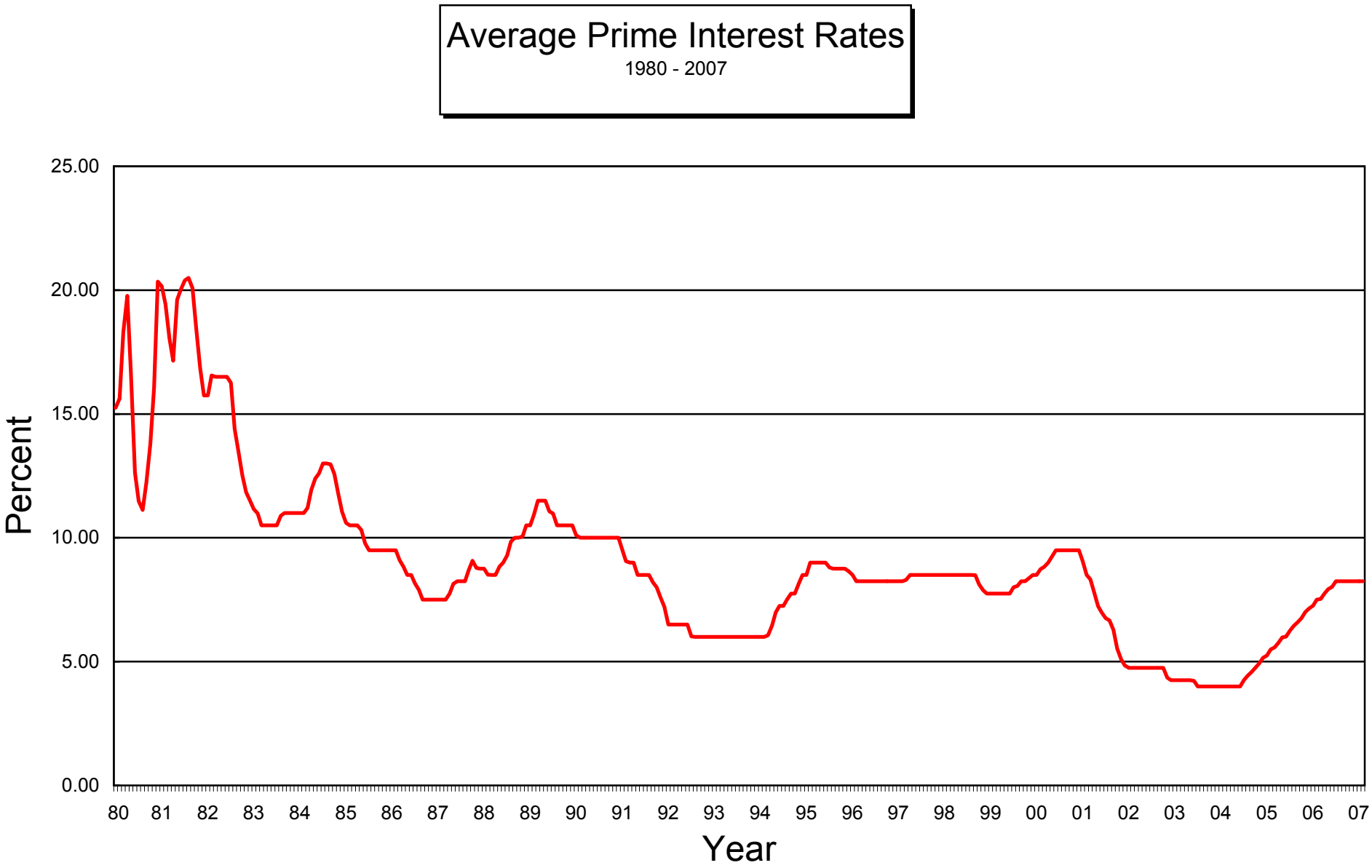
Laclede Gas Company
GR-2007-0208

Average Prime Interest Rates

Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)
Jan 1980	15.25	Jan 1984	11.00	Jan 1988	8.75	Jan 1992	6.50	Jan 1996	8.50	Jan 2000	8.50	Jan 2004	4.00
Feb	15.63	Feb	11.00	Feb	8.51	Feb	6.50	Feb	8.25	Feb	8.73	Feb	4.00
Mar	18.31	Mar	11.21	Mar	8.50	Mar	6.50	Mar	8.25	Mar	8.83	Mar	4.00
Apr	19.77	Apr	11.93	Apr	8.50	Apr	6.50	Apr	8.25	Apr	9.00	Apr	4.00
May	16.57	May	12.39	May	8.84	May	6.50	May	8.25	May	9.24	May	4.00
Jun	12.63	Jun	12.60	Jun	9.00	Jun	6.50	Jun	8.25	Jun	9.50	Jun	4.00
Jul	11.48	Jul	13.00	Jul	9.29	Jul	6.02	Jul	8.25	Jul	9.50	Jul	4.25
Aug	11.12	Aug	13.00	Aug	9.84	Aug	6.00	Aug	8.25	Aug	9.50	Aug	4.43
Sep	12.23	Sep	12.97	Sep	10.00	Sep	6.00	Sep	8.25	Sep	9.50	Sep	4.58
Oct	13.79	Oct	12.58	Oct	10.00	Oct	6.00	Oct	8.25	Oct	9.50	Oct	4.75
Nov	16.06	Nov	11.77	Nov	10.05	Nov	6.00	Nov	8.25	Nov	9.50	Nov	4.93
Dec	20.35	Dec	11.06	Dec	10.50	Dec	6.00	Dec	8.25	Dec	9.50	Dec	5.15
Jan 1981	20.16	Jan 1985	10.61	Jan 1989	10.50	Jan 1993	6.00	Jan 1997	8.26	Jan 2001	9.05	Jan 2005	5.25
Feb	19.43	Feb	10.50	Feb	10.93	Feb	6.00	Feb	8.25	Feb	8.50	Feb	5.49
Mar	18.05	Mar	10.50	Mar	11.50	Mar	6.00	Mar	8.30	Mar	8.32	Mar	5.58
Apr	17.15	Apr	10.50	Apr	11.50	Apr	6.00	Apr	8.50	Apr	7.80	Apr	5.75
May	19.61	May	10.31	May	11.50	May	6.00	May	8.50	May	7.24	May	5.98
Jun	20.03	Jun	9.78	Jun	11.07	Jun	6.00	Jun	8.50	Jun	6.98	Jun	6.01
Jul	20.39	Jul	9.50	Jul	10.98	Jul	6.00	Jul	8.50	Jul	6.75	Jul	6.25
Aug	20.50	Aug	9.50	Aug	10.50	Aug	6.00	Aug	8.50	Aug	6.67	Aug	6.44
Sep	20.08	Sep	9.50	Sep	10.50	Sep	6.00	Sep	8.50	Sep	6.28	Sep	6.59
Oct	18.45	Oct	9.50	Oct	10.50	Oct	6.00	Oct	8.50	Oct	5.53	Oct	6.75
Nov	16.84	Nov	9.50	Nov	10.50	Nov	6.00	Nov	8.50	Nov	5.10	Nov	7.00
Dec	15.75	Dec	9.50	Dec	10.50	Dec	6.00	Dec	8.50	Dec	4.84	Dec	7.15
Jan 1982	15.75	Jan 1986	9.50	Jan 1990	10.11	Jan 1994	6.00	Jan 1998	8.50	Jan 2002	4.75	Jan 2006	7.26
Feb	16.56	Feb	9.50	Feb	10.00	Feb	6.00	Feb	8.50	Feb	4.75	Feb	7.50
Mar	16.50	Mar	9.10	Mar	10.00	Mar	6.06	Mar	8.50	Mar	4.75	Mar	7.53
Apr	16.50	Apr	8.83	Apr	10.00	Apr	6.45	Apr	8.50	Apr	4.75	Apr	7.75
May	16.50	May	8.50	May	10.00	May	6.99	May	8.50	May	4.75	May	7.93
Jun	16.50	Jun	8.50	Jun	10.00	Jun	7.25	Jun	8.50	Jun	4.75	June	8.02
Jul	16.26	Jul	8.16	Jul	10.00	Jul	7.25	Jul	8.50	Jul	4.75	July	8.25
Aug	14.39	Aug	7.90	Aug	10.00	Aug	7.51	Aug	8.50	Aug	4.75	Aug	8.25
Sep	13.50	Sep	7.50	Sep	10.00	Sep	7.75	Sep	8.49	Sep	4.75	Sep	8.25
Oct	12.52	Oct	7.50	Oct	10.00	Oct	7.75	Oct	8.12	Oct	4.75	Oct	8.25
Nov	11.85	Nov	7.50	Nov	10.00	Nov	8.15	Nov	7.89	Nov	4.35	Nov	8.25
Dec	11.50	Dec	7.50	Dec	10.00	Dec	8.50	Dec	7.75	Dec	4.25	Dec	8.25
Jan 1983	11.16	Jan 1987	7.50	Jan 1991	9.52	Jan 1995	8.50	Jan 1999	7.75	Jan 2003	4.25	Jan 2007	8.25
Feb	10.98	Feb	7.50	Feb	9.05	Feb	9.00	Feb	7.75	Feb	4.25	Feb	8.25
Mar	10.50	Mar	7.50	Mar	9.00	Mar	9.00	Mar	7.75	Mar	4.25		
Apr	10.50	Apr	7.75	Apr	9.00	Apr	9.00	Apr	7.75	Apr	4.25		
May	10.50	May	8.14	May	8.50	May	9.00	May	7.75	May	4.25		
Jun	10.50	Jun	8.25	Jun	8.50	Jun	9.00	Jun	7.75	Jun	4.22		
Jul	10.50	Jul	8.25	Jul	8.50	Jul	8.80	Jul	8.00	Jul	4.00		
Aug	10.89	Aug	8.25	Aug	8.50	Aug	8.75	Aug	8.06	Aug	4.00		
Sep	11.00	Sep	8.70	Sep	8.20	Sep	8.75	Sep	8.25	Sep	4.00		
Oct	11.00	Oct	9.07	Oct	8.00	Oct	8.75	Oct	8.25	Oct	4.00		
Nov	11.00	Nov	8.78	Nov	7.58	Nov	8.75	Nov	8.37	Nov	4.00		
Dec	11.00	Dec	8.75	Dec	7.21	Dec	8.65	Dec	8.50	Dec	4.00		

Source:
http://research.stlouisfed.org/fred2/data/MPRIME.txt

Schedule 3 -1

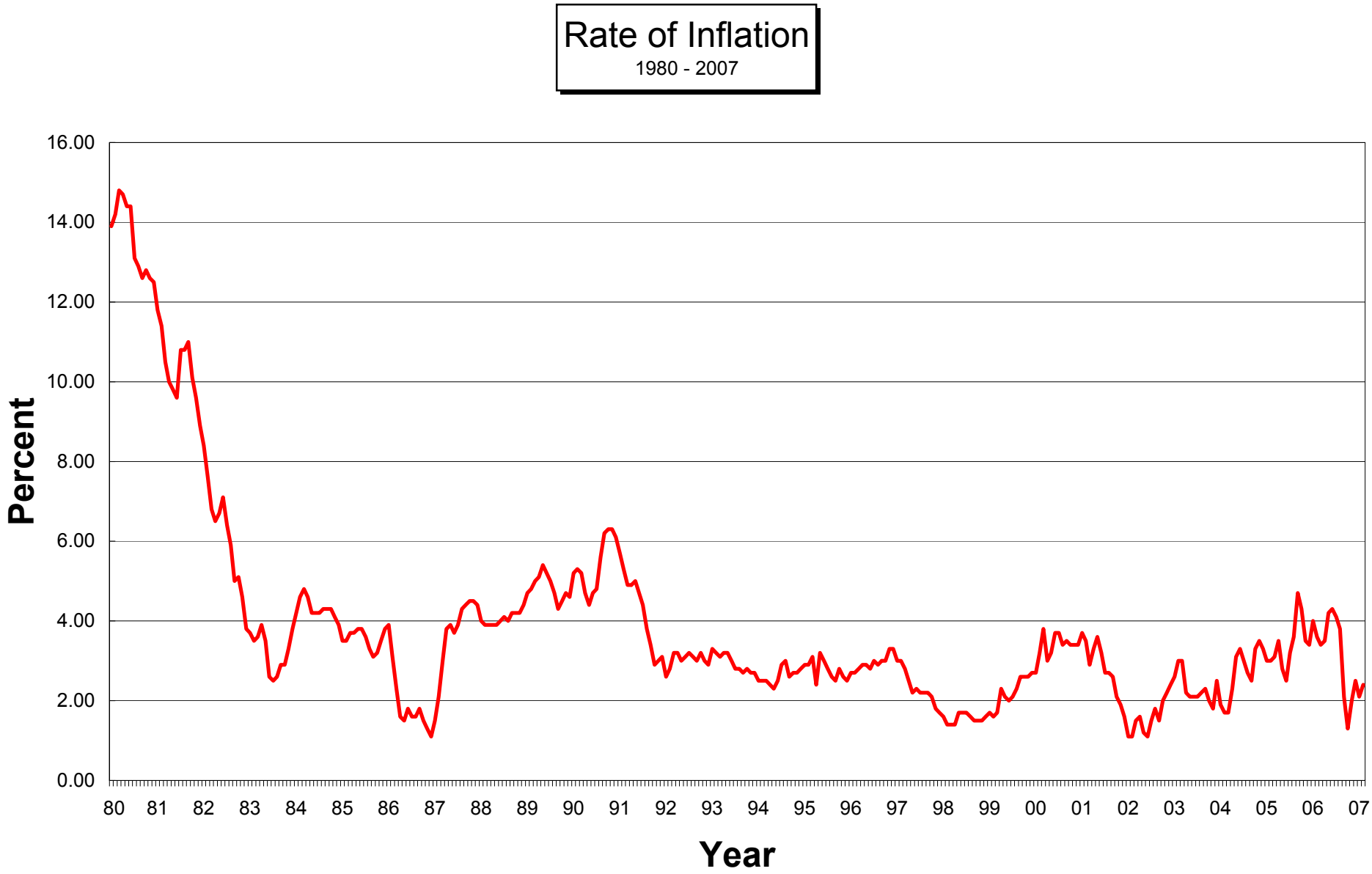

Average Prime Interest Rates
1980 - 2007
Percent
25.00
20.00
15.00
10.00
5.00
0.00
80 81 82 83 84 85 86 87 88 89 90 91 92 93 94 95 96 97 98 99 00 01 02 03 04 05 06 07
Year

Rate of Inflation

Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)
Jan 1980	13.90	Jan 1984	4.20	Jan 1988	4.00	Jan 1992	2.60	Jan 1996	2.70	Jan 2000	2.70	Jan 2004	1.90
Feb	14.20	Feb	4.60	Feb	3.90	Feb	2.80	Feb	2.70	Feb	3.20	Feb	1.70
Mar	14.80	Mar	4.80	Mar	3.90	Mar	3.20	Mar	2.80	Mar	3.70	Mar	1.70
Apr	14.70	Apr	4.60	Apr	3.90	Apr	3.20	Apr	2.90	Apr	3.00	Apr	2.30
May	14.40	May	4.20	May	3.90	May	3.00	May	2.90	May	3.20	May	3.10
Jun	14.40	Jun	4.20	Jun	4.00	Jun	3.10	Jun	2.80	Jun	3.70	Jun	3.30
Jul	13.10	Jul	4.20	Jul	4.10	Jul	3.20	Jul	3.00	Jul	3.70	Jul	3.00
Aug	12.90	Aug	4.30	Aug	4.00	Aug	3.10	Aug	2.90	Aug	3.40	Aug	2.70
Sep	12.60	Sep	4.30	Sep	4.20	Sep	3.00	Sep	3.00	Sep	3.50	Sep	2.50
Oct	12.80	Oct	4.30	Oct	4.20	Oct	3.20	Oct	3.00	Oct	3.40	Oct	3.30
Nov	12.60	Nov	4.10	Nov	4.20	Nov	3.00	Nov	3.30	Nov	3.40	Nov	3.50
Dec	12.50	Dec	3.90	Dec	4.40	Dec	2.90	Dec	3.30	Dec	3.40	Dec	3.30
Jan 1981	11.80	Jan 1985	3.50	Jan 1989	4.70	Jan 1993	3.30	Jan 1997	3.00	Jan 2001	3.70	Jan 2005	3.00
Feb	11.40	Feb	3.50	Feb	4.80	Feb	3.20	Feb	3.00	Feb	3.50	Feb	3.00
Mar	10.50	Mar	3.70	Mar	5.00	Mar	3.10	Mar	2.80	Mar	2.90	Mar	3.10
Apr	10.00	Apr	3.70	Apr	5.10	Apr	3.20	Apr	2.50	Apr	3.30	Apr	3.50
May	9.80	May	3.80	May	5.40	May	3.20	May	2.20	May	3.60	May	2.80
Jun	9.60	Jun	3.80	Jun	5.20	Jun	3.00	Jun	2.30	Jun	3.20	Jun	2.50
Jul	10.80	Jul	3.60	Jul	5.00	Jul	2.80	Jul	2.20	Jul	2.70	Jul	3.20
Aug	10.80	Aug	3.30	Aug	4.70	Aug	2.80	Aug	2.20	Aug	2.70	Aug	3.60
Sep	11.00	Sep	3.10	Sep	4.30	Sep	2.70	Sep	2.20	Sep	2.60	Sep	4.70
Oct	10.10	Oct	3.20	Oct	4.50	Oct	2.80	Oct	2.10	Oct	2.10	Oct	4.30
Nov	9.60	Nov	3.50	Nov	4.70	Nov	2.70	Nov	1.80	Nov	1.90	Nov	3.50
Dec	8.90	Dec	3.80	Dec	4.60	Dec	2.70	Dec	1.70	Dec	1.60	Dec	3.40
Jan 1982	8.40	Jan 1986	3.90	Jan 1990	5.20	Jan 1994	2.50	Jan 1998	1.60	Jan 2002	1.10	Jan 2006	4.00
Feb	7.60	Feb	3.10	Feb	5.30	Feb	2.50	Feb	1.40	Feb	1.10	Feb	3.60
Mar	6.80	Mar	2.30	Mar	5.20	Mar	2.50	Mar	1.40	Mar	1.50	Mar	3.40
Apr	6.50	Apr	1.60	Apr	4.70	Apr	2.40	Apr	1.40	Apr	1.60	Apr	3.50
May	6.70	May	1.50	May	4.40	May	2.30	May	1.70	May	1.20	May	4.20
Jun	7.10	Jun	1.80	Jun	4.70	Jun	2.50	Jun	1.70	Jun	1.10	June	4.30
Jul	6.40	Jul	1.60	Jul	4.80	Jul	2.90	Jul	1.70	Jul	1.50	July	4.10
Aug	5.90	Aug	1.60	Aug	5.60	Aug	3.00	Aug	1.60	Aug	1.80	Aug	3.80
Sep	5.00	Sep	1.80	Sep	6.20	Sep	2.60	Sep	1.50	Sep	1.50	Sep	2.10
Oct	5.10	Oct	1.50	Oct	6.30	Oct	2.70	Oct	1.50	Oct	2.00	Oct	1.30
Nov	4.60	Nov	1.30	Nov	6.30	Nov	2.70	Nov	1.50	Nov	2.20	Nov	2.00
Dec	3.80	Dec	1.10	Dec	6.10	Dec	2.80	Dec	1.60	Dec	2.40	Dec	2.50
Jan 1983	3.70	Jan 1987	1.50	Jan 1991	5.70	Jan 1995	2.90	Jan 1999	1.70	Jan 2003	2.60	Jan 2007	2.10
Feb	3.50	Feb	2.10	Feb	5.30	Feb	2.90	Feb	1.60	Feb	3.00	Feb	2.40
Mar	3.60	Mar	3.00	Mar	4.90	Mar	3.10	Mar	1.70	Mar	3.00		
Apr	3.90	Apr	3.80	Apr	4.90	Apr	2.40	Apr	2.30	Apr	2.20		
May	3.50	May	3.90	May	5.00	May	3.20	May	2.10	May	2.10		
Jun	2.60	Jun	3.70	Jun	4.70	Jun	3.00	Jun	2.00	Jun	2.10		
Jul	2.50	Jul	3.90	Jul	4.40	Jul	2.80	Jul	2.10	Jul	2.10		
Aug	2.60	Aug	4.30	Aug	3.80	Aug	2.60	Aug	2.30	Aug	2.20		
Sep	2.90	Sep	4.40	Sep	3.40	Sep	2.50	Sep	2.60	Sep	2.30		
Oct	2.90	Oct	4.50	Oct	2.90	Oct	2.80	Oct	2.60	Oct	2.00		
Nov	3.30	Nov	4.50	Nov	3.00	Nov	2.60	Nov	2.60	Nov	1.80		
Dec	3.80	Dec	4.40	Dec	3.10	Dec	2.50	Dec	2.70	Dec	1.90		

Source: U.S. Dept of Labor, Bureau of Labor Statistics, Consumer Price Index - All Urban Consumers,
Change for 12-Month Period, Bureau of Labor Statistics,
http://www.bls.gov/schedule/archives/cpi_nr.htm

Schedule 4-1



Schedule 4-2

SCHEDULE 4-2

Laclede Gas Company
GR-2007-0208

Average Yields on Mergent's Public Utility Bonds

Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)
Jan 1980	12.12	Jan 1984	13.40	Jan 1988	10.75	Jan 1992	8.67	Jan 1996	7.20	Jan 2000	8.22	Jan 2004	6.23
Feb	13.48	Feb	13.50	Feb	10.11	Feb	8.77	Feb	7.37	Feb	8.10	Feb	6.17
Mar	14.33	Mar	14.03	Mar	10.11	Mar	8.84	Mar	7.72	Mar	8.14	Mar	6.01
Apr	13.50	Apr	14.30	Apr	10.53	Apr	8.79	Apr	7.88	Apr	8.14	Apr	6.38
May	12.17	May	14.95	May	10.75	May	8.72	May	7.99	May	8.55	May	6.68
Jun	11.87	Jun	15.16	Jun	10.71	Jun	8.64	Jun	8.07	Jun	8.22	Jun	6.53
Jul	12.12	Jul	14.92	Jul	10.96	Jul	8.46	Jul	8.02	Jul	8.17	Jul	6.34
Aug	12.82	Aug	14.29	Aug	11.09	Aug	8.34	Aug	7.84	Aug	8.05	Aug	6.18
Sep	13.29	Sep	14.04	Sep	10.56	Sep	8.32	Sep	8.01	Sep	8.16	Sep	6.01
Oct	13.53	Oct	13.68	Oct	9.92	Oct	8.44	Oct	7.76	Oct	8.08	Oct	5.95
Nov	14.07	Nov	13.15	Nov	9.89	Nov	8.53	Nov	7.48	Nov	8.03	Nov	5.97
Dec	14.48	Dec	12.96	Dec	10.02	Dec	8.36	Dec	7.58	Dec	7.79	Dec	5.93
Jan 1981	14.22	Jan 1985	12.88	Jan 1989	10.02	Jan 1993	8.23	Jan 1997	7.79	Jan 2001	7.76	Jan 2005	5.80
Feb	14.84	Feb	13.00	Feb	10.02	Feb	8.00	Feb	7.68	Feb	7.69	Feb	5.64
Mar	14.86	Mar	13.66	Mar	10.16	Mar	7.85	Mar	7.92	Mar	7.59	Mar	5.86
Apr	15.32	Apr	13.42	Apr	10.14	Apr	7.76	Apr	8.08	Apr	7.81	Apr	5.72
May	15.84	May	12.89	May	9.92	May	7.78	May	7.94	May	7.88	May	5.60
Jun	15.27	Jun	11.91	Jun	9.49	Jun	7.68	Jun	7.77	Jun	7.75	Jun	5.39
Jul	15.87	Jul	11.88	Jul	9.34	Jul	7.53	Jul	7.52	Jul	7.71	Jul	5.50
Aug	16.33	Aug	11.93	Aug	9.37	Aug	7.21	Aug	7.57	Aug	7.57	Aug	5.51
Sep	16.89	Sep	11.95	Sep	9.43	Sep	7.01	Sep	7.50	Sep	7.73	Sep	5.54
Oct	16.76	Oct	11.84	Oct	9.37	Oct	6.99	Oct	7.37	Oct	7.64	Oct	5.79
Nov	15.50	Nov	11.33	Nov	9.33	Nov	7.30	Nov	7.24	Nov	7.61	Nov	5.88
Dec	15.77	Dec	10.82	Dec	9.31	Dec	7.33	Dec	7.16	Dec	7.86	Dec	5.83
Jan 1982	16.73	Jan 1986	10.66	Jan 1990	9.44	Jan 1994	7.31	Jan 1998	7.03	Jan 2002	7.69	Jan 2006	5.77
Feb	16.72	Feb	10.16	Feb	9.66	Feb	7.44	Feb	7.09	Feb	7.62	Feb	5.83
Mar	16.07	Mar	9.33	Mar	9.75	Mar	7.83	Mar	7.13	Mar	7.83	Mar	5.98
Apr	15.82	Apr	9.02	Apr	9.87	Apr	8.20	Apr	7.12	Apr	7.74	Apr	6.28
May	15.60	May	9.52	May	9.89	May	8.32	May	7.11	May	7.76	May	6.39
Jun	16.18	Jun	9.51	Jun	9.69	Jun	8.31	Jun	6.99	Jun	7.67	June	6.39
Jul	16.04	Jul	9.19	Jul	9.66	Jul	8.47	Jul	6.99	Jul	7.54	July	6.37
Aug	15.22	Aug	9.15	Aug	9.84	Aug	8.41	Aug	6.96	Aug	7.34	Aug	6.20
Sep	14.56	Sep	9.42	Sep	10.01	Sep	8.65	Sep	6.88	Sep	7.23	Sep	6.03
Oct	13.88	Oct	9.39	Oct	9.94	Oct	8.88	Oct	6.88	Oct	7.43	Oct	6.01
Nov	13.58	Nov	9.15	Nov	9.76	Nov	9.00	Nov	6.96	Nov	7.31	Nov	5.82
Dec	13.55	Dec	8.96	Dec	9.57	Dec	8.79	Dec	6.84	Dec	7.20	Dec	5.83
Jan 1983	13.46	Jan 1987	8.77	Jan 1991	9.56	Jan 1995	8.77	Jan 1999	6.87	Jan 2003	7.13	Jan 2007	5.96
Feb	13.60	Feb	8.81	Feb	9.31	Feb	8.56	Feb	7.00	Feb	6.92	Feb	5.91
Mar	13.28	Mar	8.75	Mar	9.39	Mar	8.41	Mar	7.18	Mar	6.80		
Apr	13.03	Apr	9.30	Apr	9.30	Apr	8.30	Apr	7.16	Apr	6.68		
May	13.00	May	9.82	May	9.29	May	7.93	May	7.42	May	6.35		
Jun	13.17	Jun	9.87	Jun	9.44	Jun	7.62	Jun	7.70	Jun	6.21		
Jul	13.28	Jul	10.01	Jul	9.40	Jul	7.73	Jul	7.66	Jul	6.54		
Aug	13.50	Aug	10.33	Aug	9.16	Aug	7.86	Aug	7.86	Aug	6.78		
Sep	13.35	Sep	11.00	Sep	9.03	Sep	7.62	Sep	7.87	Sep	6.58		
Oct	13.19	Oct	11.32	Oct	8.99	Oct	7.46	Oct	8.02	Oct	6.50		
Nov	13.33	Nov	10.82	Nov	8.93	Nov	7.40	Nov	7.86	Nov	6.44		
Dec	13.48	Dec	10.99	Dec	8.76	Dec	7.21	Dec	8.04	Dec	6.36		

Source:
Mergent Bond Record for March 2007 PU Bonds (page 10)

Schedule 5-1

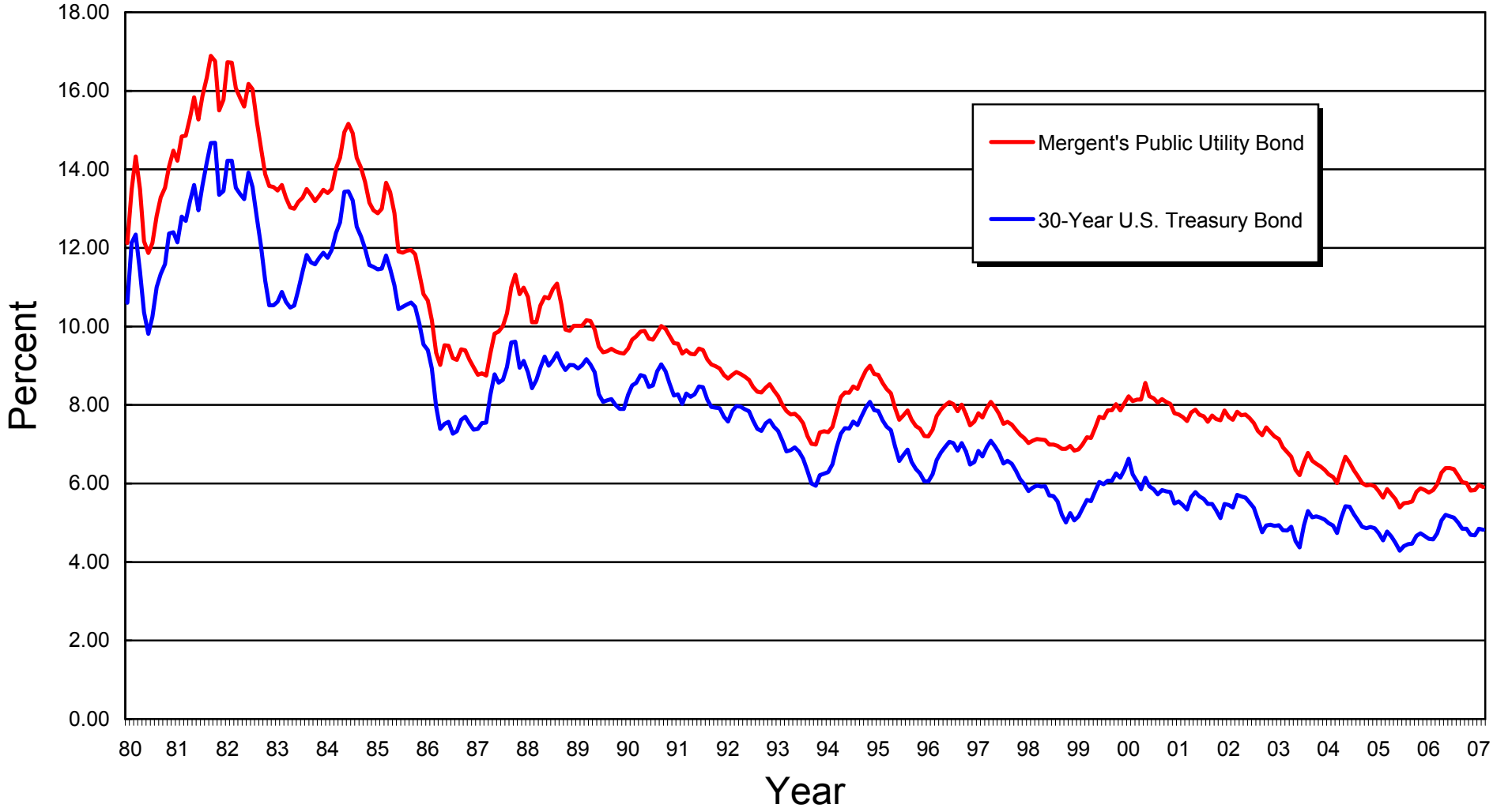
Average Yields on Thirty-Year U.S. Treasury Bonds

Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)	Mo/Year	Rate (%)
Jan 1980	10.60	Jan 1984	11.75	Jan 1988	8.83	Jan 1992	7.58	Jan 1996	6.05	Jan 2000	6.63	Jan 2004	4.99
Feb	12.13	Feb	11.95	Feb	8.43	Feb	7.85	Feb	6.24	Feb	6.23	Feb	4.93
Mar	12.34	Mar	12.38	Mar	8.63	Mar	7.97	Mar	6.60	Mar	6.05	Mar	4.74
Apr	11.40	Apr	12.65	Apr	8.95	Apr	7.96	Apr	6.79	Apr	5.85	Apr	5.14
May	10.36	May	13.43	May	9.23	May	7.89	May	6.93	May	6.15	May	5.42
Jun	9.81	Jun	13.44	Jun	9.00	Jun	7.84	Jun	7.06	Jun	5.93	Jun	5.41
Jul	10.24	Jul	13.21	Jul	9.14	Jul	7.60	Jul	7.03	Jul	5.85	Jul	5.22
Aug	11.00	Aug	12.54	Aug	9.32	Aug	7.39	Aug	6.84	Aug	5.72	Aug	5.06
Sep	11.34	Sep	12.29	Sep	9.06	Sep	7.34	Sep	7.03	Sep	5.83	Sep	4.90
Oct	11.59	Oct	11.98	Oct	8.89	Oct	7.53	Oct	6.81	Oct	5.80	Oct	4.86
Nov	12.37	Nov	11.56	Nov	9.02	Nov	7.61	Nov	6.48	Nov	5.78	Nov	4.89
Dec	12.40	Dec	11.52	Dec	9.01	Dec	7.44	Dec	6.55	Dec	5.49	Dec	4.86
Jan 1981	12.14	Jan 1985	11.45	Jan 1989	8.93	Jan 1993	7.34	Jan 1997	6.83	Jan 2001	5.54	Jan 2005	4.73
Feb	12.80	Feb	11.47	Feb	9.01	Feb	7.09	Feb	6.69	Feb	5.45	Feb	4.55
Mar	12.69	Mar	11.81	Mar	9.17	Mar	6.82	Mar	6.93	Mar	5.34	Mar	4.78
Apr	13.20	Apr	11.47	Apr	9.03	Apr	6.85	Apr	7.09	Apr	5.65	Apr	4.65
May	13.60	May	11.05	May	8.83	May	6.92	May	6.94	May	5.78	May	4.49
Jun	12.96	Jun	10.44	Jun	8.27	Jun	6.81	Jun	6.77	Jun	5.67	Jun	4.29
Jul	13.59	Jul	10.50	Jul	8.08	Jul	6.63	Jul	6.51	Jul	5.61	Jul	4.41
Aug	14.17	Aug	10.56	Aug	8.12	Aug	6.32	Aug	6.58	Aug	5.48	Aug	4.46
Sep	14.67	Sep	10.61	Sep	8.15	Sep	6.00	Sep	6.50	Sep	5.48	Sep	4.47
Oct	14.68	Oct	10.50	Oct	8.00	Oct	5.94	Oct	6.33	Oct	5.32	Oct	4.67
Nov	13.35	Nov	10.06	Nov	7.90	Nov	6.21	Nov	6.11	Nov	5.12	Nov	4.73
Dec	13.45	Dec	9.54	Dec	7.90	Dec	6.25	Dec	5.99	Dec	5.48	Dec	4.66
Jan 1982	14.22	Jan 1986	9.40	Jan 1990	8.26	Jan 1994	6.29	Jan 1998	5.81	Jan 2002	5.44	Jan 2006	4.59
Feb	14.22	Feb	8.93	Feb	8.50	Feb	6.49	Feb	5.89	Feb	5.39	Feb	4.58
Mar	13.53	Mar	7.96	Mar	8.56	Mar	6.91	Mar	5.95	Mar	5.71	Mar	4.73
Apr	13.37	Apr	7.39	Apr	8.76	Apr	7.27	Apr	5.92	Apr	5.67	Apr	5.06
May	13.24	May	7.52	May	8.73	May	7.41	May	5.93	May	5.64	May	5.20
Jun	13.92	Jun	7.57	Jun	8.46	Jun	7.40	Jun	5.70	Jun	5.52	Jun	5.16
Jul	13.55	Jul	7.27	Jul	8.50	Jul	7.58	Jul	5.68	Jul	5.38	July	5.13
Aug	12.77	Aug	7.33	Aug	8.86	Aug	7.49	Aug	5.54	Aug	5.08	Aug	5.00
Sep	12.07	Sep	7.62	Sep	9.03	Sep	7.71	Sep	5.20	Sep	4.76	Sep	4.85
Oct	11.17	Oct	7.70	Oct	8.86	Oct	7.94	Oct	5.01	Oct	4.93	Oct	4.85
Nov	10.54	Nov	7.52	Nov	8.54	Nov	8.08	Nov	5.25	Nov	4.95	Nov	4.69
Dec	10.54	Dec	7.37	Dec	8.24	Dec	7.87	Dec	5.06	Dec	4.92	Dec	4.68
Jan 1983	10.63	Jan 1987	7.39	Jan 1991	8.27	Jan 1995	7.85	Jan 1999	5.16	Jan 2003	4.94	Jan 2007	4.85
Feb	10.88	Feb	7.54	Feb	8.03	Feb	7.61	Feb	5.37	Feb	4.81	Feb	4.82
Mar	10.63	Mar	7.55	Mar	8.29	Mar	7.45	Mar	5.58	Mar	4.80		
Apr	10.48	Apr	8.25	Apr	8.21	Apr	7.36	Apr	5.55	Apr	4.90		
May	10.53	May	8.78	May	8.27	May	6.95	May	5.81	May	4.53		
Jun	10.93	Jun	8.57	Jun	8.47	Jun	6.57	Jun	6.04	Jun	4.37		
Jul	11.40	Jul	8.64	Jul	8.45	Jul	6.72	Jul	5.98	Jul	4.93		
Aug	11.82	Aug	8.97	Aug	8.14	Aug	6.86	Aug	6.07	Aug	5.30		
Sep	11.63	Sep	9.59	Sep	7.95	Sep	6.55	Sep	6.07	Sep	5.14		
Oct	11.58	Oct	9.61	Oct	7.93	Oct	6.37	Oct	6.26	Oct	5.16		
Nov	11.75	Nov	8.95	Nov	7.92	Nov	6.26	Nov	6.15	Nov	5.13		
Dec	11.88	Dec	9.12	Dec	7.70	Dec	6.06	Dec	6.35	Dec	5.08		

Sources:
http://finance.yahoo.com/q/hp?s=^TYX

Schedule 5-2

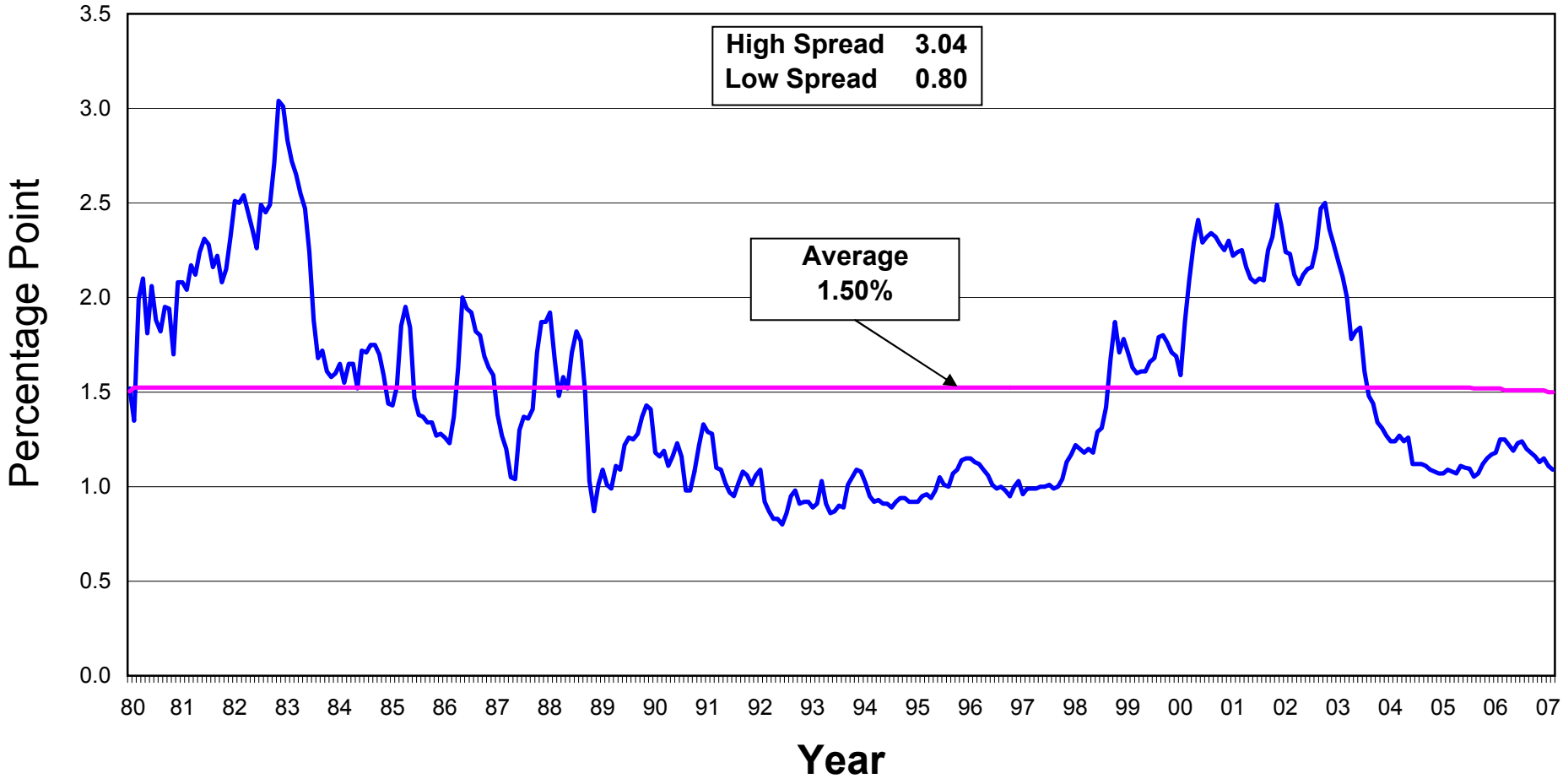
Average Yields on Mergent's Public Utility Bonds and Thirty-Year U.S. Treasury Bonds (1980 - 2007)



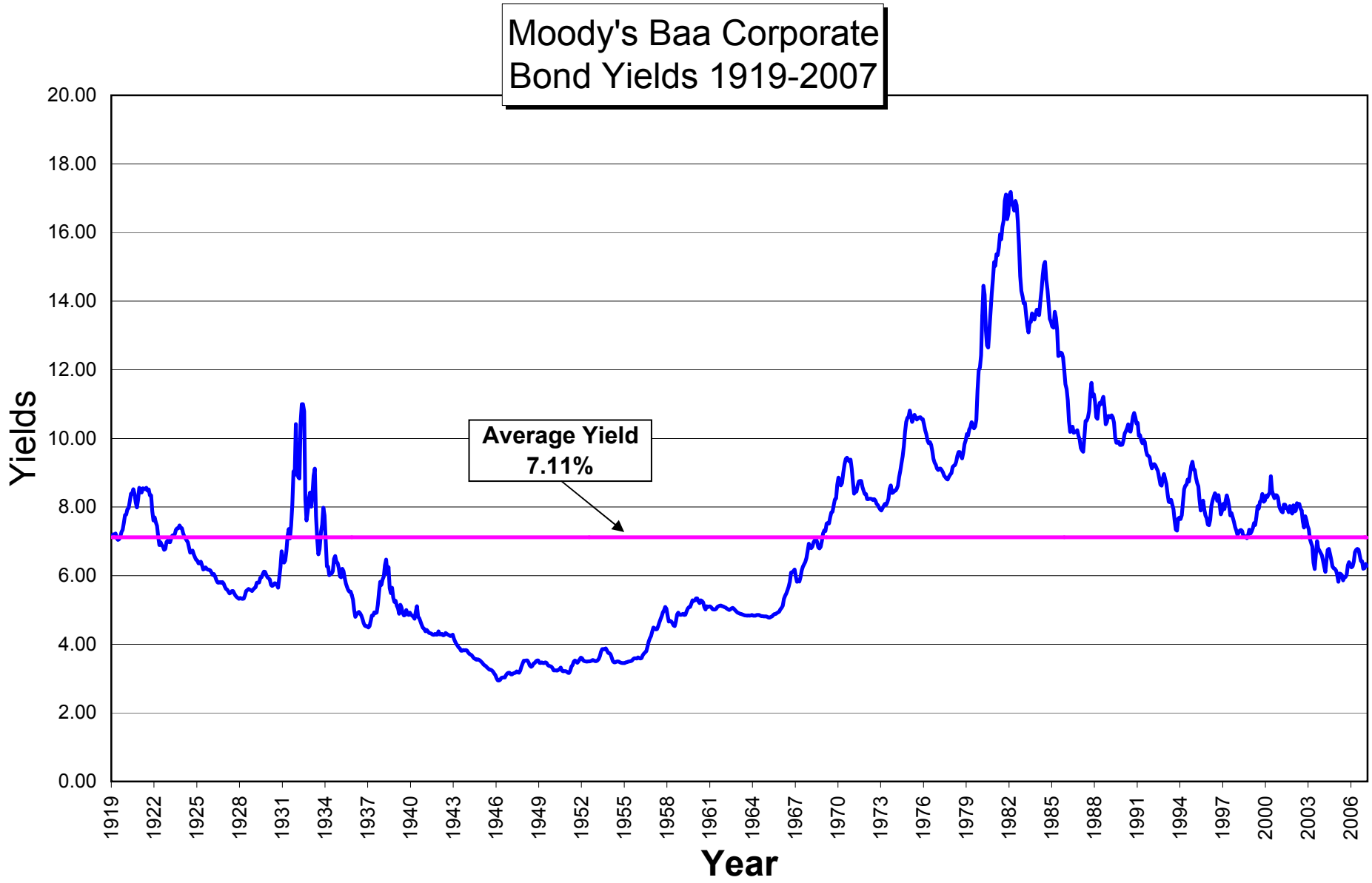
Schedule 5-3

SCHEDULE 5-3

Monthly Spreads Between Yields on Mergent's Public Utility Bonds and Thirty-Year U.S. Treasury Bonds (1980 - 2007)



SCHEDULE 5-4



Source: St. Louis Federal Reserve Website: http://stlouisfed.org

Schedule 5-5

Schedule 5-5

Laclede Gas Company
GR-2007-0208

Economic Estimates and Projections, 2007-2009

	Inflation Rate			Real GDP			Unemployment			3-Mo. T-Bill Rate			Long-Term T-Bond Rate		
Source	**2007**	**2008**	**2009**	**2007**	**2008**	**2009**	**2007**	**2008**	**2009**	**2007**	**2008**	**2009**	**2007**	**2008**	**2009**
Value Line Investment Survey -- Selection & Opinion (02-23-07, page 4851)	2.30%	2.30%	2.40%	2.80%	3.00%	3.20%	4.60%	4.70%	4.70%	5.00%	4.90%	4.90%	5.00%	5.20%	5.50%
The Budget and Economic Outlook FY2008-2017	1.90%	2.30%	2.20%	2.30%	3.00%	3.10%	4.70%	4.90%	5.00%	4.80%	4.50%	4.40%	N/A	N/A	N/A
Current rate	2.40%			2.50%			4.40%			4.94%			4.87%		

Notes: N.A. = Not Available.
Value Line data for 2007-2009 are estimated.
CBO data for 2007 and 2008 are forecasted, data for 2009 is projected.

Sources of Current Rates:

Inflation: **The Bureau of Labor Statistics, Consumer Price Index - All Urban Consumers, 12-Month Period Ending, February 28, 2007 (see first paragraph).**
http://www.bls.gov/schedule/archives/cpi_nr.htm

GDP: **U.S. Department of Commerce, Bureau of Economic Analysis for the Quarter Ending December 31, 2006 (see first paragraph).**
http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm

Unemployment: **The Bureau of Labor Statistics, Economy Situation Summary - Unemployment Rate, March 2007.**
http://www.bls.gov/news.release/empsit.nr0.htm

3-Month Treasury: **St. Louis Federal Reserve website for March 1, 2007.**
http://research.stlouisfed.org/fred2/series/TB3MS/22

30-Yr. T-Bond: **CBS MarketWatch website on March 21, 2007.**
http://www.marketwatch.com/tools/marketsummary/default.asp?site=mktw

Other Sources (2007 - 2009): **ValueLine Investment Survey Selection & Opinion, February 23, 2007, page 4851.**

The Congressional Budget Office, The Budget and Economic Outlook: Fiscal Years 2008-2017, January 2007.
http://www.cbo.gov/ftpdocs/70xx/doc7027/01-26-BudgetOutlook.pdf

Schedule 6

Laclede Gas Company
GR-2007-0208

Historical Consolidated Capital Structures for The Laclede Group

(Millions of Dollars)

Capital Components	2002	2003	2004	2005	2006	5-Year Average
Common Equity	$ 285,766	$ 299,072	$ 355,915	$ 382,631	$ 402,637	$ 345,204
Preferred Stock	$ 1,266	$ 1,258	$ 1,108	$ 948	$ 787	$ 1,073
Long-Term Debt	$ 259,545	$ 304,625	$ 380,336	$ 376,871	$ 395,441	$ 343,364
Short-Term Debt	$ 186,670	$ 218,200	$ 96,525	$ 86,325	$ 207,300	$ 159,004
Total	$ 733,247	$ 823,155	$ 833,884	$ 846,775	$ 1,006,165	$ 848,645

Capital Components	2002	2003	2004	2005	2006	5-Year Average
Common Equity	38.97%	36.33%	42.68%	45.19%	40.02%	40.64%
Preferred Stock	0.17%	0.15%	0.13%	0.11%	0.08%	0.13%
Long-Term Debt	35.40%	37.01%	45.61%	44.51%	39.30%	40.36%
Short-Term Debt	25.46%	26.51%	11.58%	10.19%	20.60%	18.87%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Laclede Group's SEC 10-K for 9/30/2002.
Laclede Group's SEC 10-K for 9/30/2003.
Laclede Group's SEC 10-K for 9/30/2004.
Laclede Group's SEC 10-K for 9/30/2005.
Laclede Group's SEC 10-K for 9/30/2006.

Schedule 7

SCHEDULE 7

Laclede Gas Company
GR-2007-0208

Selected Financial Ratios for The Laclede Group

Financial Ratios	2002	2003	2004	2005	2006
Return on Common Equity	7.80%	11.60%	10.10%	10.90%	12.50%
Earnings Per Common Share	$1.18	$1.82	$1.82	$1.90	$2.37
Cash Dividends Per Common Share	$1.34	$1.34	$1.35	$1.37	$1.40
Common Dividend Payout Ratio	113.56%	73.63%	74.18%	72.11%	59.07%
Year-End Market Price Per Common Share	$24.20	$28.55	$31.15	$29.21	$35.03
Year-End Book Value Per Common Share	$15.07	$15.65	$16.96	$17.31	$18.85
Year-End Market-to-Book Ratio	1.61 x	1.82 x	1.84 x	1.69 x	1.86 x
Funds From Operations (FFO) Interest Coverage Ratio	3.48 x	3.38 x	4.02 x	3.92 x	3.22 x
FFO/Average Total Debt	17%	15%	20%	22%	16%
Corporate Credit Rating (Standard & Poor's Corporation)	A+	A	A	A	A

Formulas:

Common Dividend Payout Ratio = Common Dividends Paid / Earnings Per Common Share.

Year-End Market-to-Book Ratio = Year-End Market Price Per Common Share / Year-End Book Value Per Common Share.

Sources: Standard and Poor's CreditStats, September 29, 2006.
Laclede Gas Company's Response to Data Request 0164.
Value Line Investment Survey for The Laclede Group, March 16, 2007.
Standard and Poor's Stock Guide for January 2007, 2006, 2005, 2004, and 2003.

Schedule 8

Laclede Gas Company
GR-2007-0208

Consolidated Capital Structure as of March 31, 2007
The Laclede Group

Capital Component		Dollar Amount	Percentage of Capital
Common Stock Equity	$	430,191,167	52.37%
Preferred Stock	$	787,350	0.10%
Long-Term Debt	$	390,442,316	47.53%
Short-Term Debt	$	-	0.00%
Total Capitalization	**$**	**821,420,833**	**100.00%**

Gas Financial Ratio Benchmark
Total Debt / Total Capital

Standard & Poor's Corporation's RatingsDirect,	BBB Credit Rating based on a "3" Business Profile
Revised Financial Guidelines as of June 2, 2004	55% to 65%

Notes: Long-term Debt at March 31, 2007 is based on the net balance of long-term debt, including current maturities (total principal amount of long-term debt outstanding less unamortized expenses and discounts) shown on Schedule 10. This balance also includes the amount of non-regulated debt.

Source: E-mail sent by Company witness Glenn Buck April 24, 2007, that contained updated capital structure components and embedded costs as of March 31, 2007.

Embedded Cost of Long-Term Debt for
The Laclede Group as of March 31, 2007

(Thousands of Dollars)

	Amount Outstanding		Annualized Cost
Long-Term Debt			
First Mortgage Bonds			
7.5% Series Due November 1, 2007	$ 40,000		$ 3,000.000
6.5% Series Due November 15, 2010	$ 25,000		$ 1,625.000
6.5% Series Due Octover 15, 2012	$ 25,000		$ 1,625.000
5.5% Series Due May 1, 2019	$ 50,000		$ 2,750.000
7% Series Due June 1, 2029	$ 25,000		$ 1,750.000
7.9% Series Due September 15, 2030	$ 30,000		$ 2,370.000
6% Series Due May 1, 2034	$ 100,000		$ 6,000.000
6.15% Series Due June 1, 2036	$ 55,000		$ 3,382.500
Long-Term Debt to Unconsolidated Affiliate Trust	$ 46,400		$ 3,572.800
Unamortized Discount, Expense, and Loss On Reacquired Debt	$ (5,958)		$ 388.466
Total	$ 390,442		$26,463.766
Embedded Cost of Long-Term Debt		6.78%	

Source: E-mail sent by Company witness Glenn Buck April 24, 2007, that contained updated capital structure components and embedded costs as of March 31, 2007.

Laclede Gas Company
GR-2007-0208

Embedded Cost of Preferred Stock for
The Laclede Group as of March 31, 2007

(Thousands of Dollars)

	Amount Outstanding	Annualized Cost
Redeemable Preferred Stock		
5.0% Series B	$ 640,000	$32,000.000
4.56% Series C	$ 147,350	$ 6,719.160
Total	$ 787,350	$38,719.160
Embedded Cost of Preferred Stock	4.92%	

Source: E-mail sent by Company witness Glenn Buck April 24, 2007, that contained updated capital structure components and embedded costs as of March 31, 2007.

Schedule 11

Laclede Gas Company
GR-2007-0208

Criteria for Selecting Comparable Natural Gas Distribution Companies

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Natural Gas Distribution Companies	Stock Publicly Traded	Information Printed In Value Line	10-Years of Data Available	Positive DPS Annualized Compound Growth Rate (1996 - 2006)	Total Capitalization <5 Billion	Two Sources for Projected Growth Available with One from Value Line	At Least Investment Grade Credit Rating	**Comparable Company Met All Criteria**
AGL Resources, Inc.	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**
Atmos Energy Corporation	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**
Cascade Natural Gas Corporation	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**
Delta Natural Gas Company, Inc.	Yes	Yes	Yes	Yes	Yes	No		
Energy West	Yes	Yes	No					
Energysouth, Inc.	Yes	Yes	Yes	Yes	Yes	No		
The Laclede Group	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**
New Jersey Resources Corporation	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**
Northwest Natural Gas Company	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**
Piedmont Natural Gas Company, Inc.	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**
RGC Resources, Inc.	Yes	Yes	Yes	Yes	Yes	No		
Semco Energy, Inc.	Yes	Yes	Yes	No				
South Jersey Industries, Inc.	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**
WGL Holdings, Inc.	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**

Sources: Column 1 = Edward Jones' Natural Gas Industry Summary, December 31, 2006.
Columns 2, 3, 4, 5, 6 and 7 = The Value Line Investment Survey: Ratings & Reports, March 16, 2007.
Column 7 = I/B/E/S Inc.'s Institutional Brokers Estimate System, March 15, 2007 and Standard & Poor's Earnings Guide, March 2007.
Column 8 = Standard & Poor's RatingsDirect

Schedule 12

SCHEDULE 12

Laclede Gas Company
GR-2007-0208

Comparable Natural Gas Utility Companies for Laclede Gas Company

Number	Ticker Symbol	Company Name
1	ATG	AGL Resources, Inc.
2	NJR	New Jersey Resources Corp.
3	NWN	Northwest Natural Gas Co.
4	PNY	Piedmont Natural Gas Co.
5	SJI	South Jersey Industries, Inc.
6	WGL	WGL Holdings, Inc.

Notes:
-Removed Laclede from the comparable group because they have Missouri operations, but will analyze to determine possible effects of Missouri regulation.

-Removed Cascade Natural Gas and Atmos Energy Corporation because both companies are still involved with mergers.

Laclede Gas Company
GR-2007-0208

Ten-Year Dividends Per Share, Earnings Per Share & Book Value Per Share Growth Rates
for the Six Comparable Natural Gas Utility Companies and The Laclede Group

	---------- 10-Year Annual Compound Growth Rates ----------			
Company Name	DPS	EPS	BVPS	Average of 10 Year Annual Compound Growth Rates
AGL Resources, Inc.	1.50%	6.50%	5.50%	4.50%
New Jersey Resources Corp.	3.00%	7.50%	6.50%	5.67%
Northwest Natural Gas Co.	1.00%	1.50%	4.00%	2.17%
Piedmont Natural Gas Co.	5.50%	5.50%	6.50%	5.83%
South Jersey Industries, Inc.	1.50%	8.00%	5.50%	5.00%
WGL Holdings, Inc.	1.50%	4.50%	4.00%	3.33%
Average	**2.33%**	**5.58%**	**5.33%**	**4.42%**
Standard Deviation	1.55%	2.17%	1.03%	1.30%
The Laclede Group	1.00%	3.00%	3.00%	2.33%

Source: The Value Line Investment Survey: Ratings & Reports, March 16, 2007.

Notes:
NA = Not Applicable

Schedule 14-1

Laclede Gas Company
GR-2007-0208

Five-Year Dividends Per Share, Earnings Per Share & Book Value Per Share Growth Rates
for the Six Comparable Gas Utility Companies and The Laclede Group

	---------- 5-Year Annual Compound Growth Rates ----------			
Company Name	DPS	EPS	BVPS	Average of 5 Year Annual Compound Growth Rates
AGL Resources, Inc.	2.00%	13.50%	8.50%	8.00%
New Jersey Resources Corp.	3.50%	8.00%	8.50%	6.67%
Northwest Natural Gas Co.	1.00%	5.00%	3.50%	3.17%
Piedmont Natural Gas Co.	5.00%	5.00%	6.50%	5.50%
South Jersey Industries, Inc.	2.50%	11.50%	13.00%	9.00%
WGL Holdings, Inc.	1.50%	6.00%	3.00%	3.50%
Average	**2.58%**	**8.17%**	**7.17%**	**5.97%**
Standard Deviation	1.34%	3.27%	3.39%	2.16%
The Laclede Group	0.50%	6.50%	3.50%	3.50%

Source: The Value Line Investment Survey: Ratings & Reports, March 16, 2007.

Notes:
NA = Not Applicable

Schedule 14-2

Average of Ten- and Five-Year Dividends Per Share, Earnings Per Share & Book Value Per Share of Growth Rates for the Six Comparable Gas Utility Companies, and The Laclede Group

Company Name	10-Year Average DPS, EPS & BVPS	5-Year Average DPS, EPS & BVPS	Average of 5-Year & 10-Year Averages
AGL Resources, Inc.	4.50%	8.00%	6.25%
New Jersey Resources Corp.	5.67%	6.67%	6.17%
Northwest Natural Gas Co.	2.17%	3.17%	2.67%
Piedmont Natural Gas Co.	5.83%	5.50%	5.67%
South Jersey Industries, Inc.	5.00%	9.00%	7.00%
WGL Holdings, Inc.	3.33%	3.50%	3.42%
Average	**4.42%**	**5.97%**	**5.19%**
The Laclede Group	2.33%	3.50%	2.92%

Source: The Value Line Investment Survey: Ratings & Reports, March 16, 2007.

Laclede Gas Company
GR-2007-0208

Historical and Projected Growth Rates
for the Six Comparable Gas Utility Companies,
and The Laclede Group

Company Name	(1) Historical Growth Rate (DPS, EPS and BVPS)	(2) Projected 5-Year EPS Growth IBES (Mean)	(3) Projected 5-Year EPS Growth S&P	(4) Projected 3-5 Year EPS Growth Value Line	(5) Average Projected Growth	(6) Average of Historical & Projected Growth
AGL Resources, Inc.	6.25%	4.10%	4.00%	3.50%	3.87%	5.06%
New Jersey Resources Corp.	6.17%	5.33%	5.00%	2.50%	4.28%	5.22%
Northwest Natural Gas Co.	2.67%	4.88%	5.00%	7.00%	5.63%	4.15%
Piedmont Natural Gas Co.	5.67%	4.33%	4.00%	3.00%	3.78%	4.72%
South Jersey Industries, Inc.	7.00%	6.67%	7.00%	9.50%	7.72%	7.36%
WGL Holdings, Inc.	3.42%	3.50%	4.00%	1.00%	2.83%	3.13%
Average	**5.19%**	**4.80%**	**4.83%**	**4.42%**	**4.68%**	**4.94%**
The Laclede Group	2.92%	3.00%	3.00%	2.00%	2.67%	2.79%

Proposed Range of Growth for Comparables: 4.50%-5.50%

Column 5 = [(Column 2 + Column 3 + Column 4) / 3]

Column 6 = [(Column 1 + Column 5) / 2]

Sources: Column 1 = Average of 10-Year and 5-Year Annual Compound Growth Rates from Schedule 14-3.

Column 2 = I/B/E/S Inc.'s Institutional Brokers Estimate System, March 15, 2007.

Column 3 = Standard & Poor's Earnings Guide, March 2007.

Column 4 = The Value Line Investment Survey: Ratings and Reports, March 16, 2007.

Schedule 15

Laclede Gas Company
GR-2007-0208

Average High / Low Stock Price for November 2006 through February 2007
for the Six Comparable Gas Utility Companies and
The Laclede Group

	(1)	(2)	(3)	(4)	(5)	(6)			(7)
	-- November 2006 --		-- December 2006 --		-- January 2007 --		-- February 2007 --		**Average High/Low Stock Price**
Company Name	High Stock Price	Low Stock Price	High Stock Price	Low Stock Price	High Stock Price	Low Stock Price	High Stock Price	Low Stock Price	**(11/06 - 2/07)**
AGL Resources, Inc.	$38.830	$37.180	$40.090	$38.110	$40.210	$38.200	$42.900	$39.530	**$39.381**
New Jersey Resources Corp.	$53.160	$50.530	$52.540	$48.460	$48.700	$46.300	$51.100	$46.730	**$49.690**
Northwest Natural Gas Co.	$41.510	$38.530	$43.690	$40.800	$42.980	$39.890	$46.300	$39.790	**$41.686**
Piedmont Natural Gas Co.	$28.260	$26.050	$28.440	$26.550	$27.250	$25.780	$26.960	$24.550	**$26.730**
South Jersey Industries, Inc.	$33.350	$30.350	$34.260	$32.420	$33.950	$31.810	$35.300	$33.050	**$33.061**
WGL Holdings, Inc.	$33.410	$31.840	$33.550	$32.320	$32.980	$30.990	$33.000	$31.220	**$32.414**
The Laclede Group	$37.510	$34.390	$36.880	$34.460	$36.030	$31.670	$32.970	$30.070	**$34.248**

Notes:

Column 9 = [(Column 1 + Column 2 + Column 3 + Column 4 + Column 5 + Column 6) / 6].

Sources: S & P Stock Guides: December 2006, January, February, and March 2007.

Schedule 16

Laclede Gas Company
GR-2007-0208

Discounted Cash Flow (DCF) Estimated Costs of Common Equity
for the Six Comparable Gas Utility Companies and
The Laclede Group

	(1)	(2)	(3)	(4)	(5)
Company Name	Expected Annual Dividend	Average High/Low Stock Price	Projected Dividend Yield	Average of Historical & Projected Growth	Estimated Cost of Common Equity
AGL Resources, Inc.	$1.64	$39.381	4.16%	5.06%	9.22%
New Jersey Resources Corp.	$1.54	$49.690	3.10%	5.22%	8.32%
Northwest Natural Gas Co.	$1.47	$41.686	3.53%	4.15%	7.67%
Piedmont Natural Gas Co.	$1.01	$26.730	3.78%	4.72%	8.50%
South Jersey Industries, Inc.	$1.02	$33.061	3.07%	7.36%	10.43%
WGL Holdings, Inc.	$1.40	$32.414	4.32%	3.13%	7.44%
Average			**3.66%**	**4.94%**	**8.60%**
The Laclede Group	$1.47	$34.248	4.29%	2.79%	7.08%

Proposed Dividend Yield:	**3.70%**
Proposed Range of Growth:	**4.50% - 5.50%**
Estimated Proxy Cost of Common Equity:	**8.20%-9.20%**
The Laclede Group Company-Specific Using Average Projected Growth	**6.96%**
The Laclede Group Company-Specific Using IBES Average Growth	**7.29%**

Notes: Column 1 = Estimated Dividends Declared per share represents the average projected dividends for 2007 and 2008.

Column 3 = (Column 1 / Column 2).

Column 5 = (Column 3 + Column 4).

Sources: Column 1 = The Value Line Investment Survey: Ratings and Reports, March 16, 2007.

Column 2 = Schedule 15.

Column 4 = Schedule 14.

Laclede Gas Company
GR-2007-0208

Capital Asset Pricing Model (CAPM) Costs of Common Equity Estimates
Based on Historical Return Differences Between Common Stocks and Long-Term U.S. Treasuries
for the Six comparable Natural Gas Utility Companies and The Laclede Group

Company Name	(1) Risk Free Rate	(2) Company's Value Line Beta	(3) Arithmetic Average Market Risk Premium (1926-2006)	(4) Geometric Average Market Risk Premium (1926-2006)	(5) Geometric Average Market Risk Premium (1997-2006)	(6) Arithmetic CAPM Cost of Common Equity (1926-2006)	(7) Geometric CAPM Cost of Common Equity (1926-2006)	(8) Geometric CAPM Cost of Common Equity (1997-2006)
AGL Resources, Inc.	4.82%	0.95	6.50%	5.00%	0.59%	11.00%	9.57%	5.38%
New Jersey Resources Corp.	4.82%	0.80	6.50%	5.00%	0.59%	10.02%	8.82%	5.29%
Northwest Natural Gas Co.	4.82%	0.75	6.50%	5.00%	0.59%	9.70%	8.57%	5.26%
Piedmont Natural Gas Co.	4.82%	0.80	6.50%	5.00%	0.59%	10.02%	8.82%	5.29%
South Jersey Industries, Inc.	4.82%	0.70	6.50%	5.00%	0.59%	9.37%	8.32%	5.23%
WGL Holdings, Inc.	4.82%	0.85	6.50%	5.00%	0.59%	10.35%	9.07%	5.32%
Average		**0.81**				**10.07%**	**8.86%**	**5.30%**
The Laclede Group	4.82%	0.85	6.50%	5.00%	0.59%	10.35%	9.07%	5.32%

Sources:

Column 1 = The appropriate yield is equal to the average 30-year U.S. Treasury Bond yield for February 2007 which was obtained from the St. Louis Federal Reserve website at http://research.stlouisfed.org/fred2/series/GS30/22.

Column 2 = Beta is a measure of the movement and relative risk of an individual stock to the market as a whole as reported by the Value Line Investment Survey: Ratings & Reports, March 16, 2007.

Column 3 = The Market Risk Premium represents the expected return from holding the entire market portfolio less the expected return from holding a risk free investment. The appropriate Market Risk Premium for the period 1926 - 2006 was determined to be 6.50% based on an arithmetic average as calculated in Ibbotson Associates, Inc.'s Stocks, Bonds, Bills, and Inflation: 2007 Yearbook.

Column 4 = The Market Risk Premium represents the expected return from holding the entire market portfolio less the expected return from holding a risk free investment. The appropriate Market Risk Premium for the period 1926 - 2006 was determined to be 5.00% based on a geometric average as calculated in Ibbotson Associates, Inc.'s Stocks, Bonds, Bills, and Inflation: 2007 Yearbook.

Column 5 = The Market Risk Premium represents the expected return from holding the entire market portfolio less the expected return from holding a risk free investment. The appropriate Market Risk Premium for the period 1997 - 2006 was determined to be .59% as calculated in Ibbotson Associates, Inc.'s Stocks, Bonds, Bills, and Inflation: 2007 Yearbook.

Column 6 = (Column 1 + (Column 2 * Column 3)).

Column 7 = (Column 1 + (Column 2 * Column 4)).

Column 8 = (Column 1 + (Column 2 * Column 5)).

Schedule 18

Laclede Gas Company
GR-2007-0208

Selected Financial Ratios for the Six Comparable Natural Gas Utility Companies and The Laclede Group

Company Name	(1) 2006 Common Equity Ratio	(2) 2006 Long-Term Debt Ratio	(3) Funds From Operations Interest Coverage	(4) Funds From Operations to Total Debt	(5) Market-to-Book Value	(6) 2006 Return on Common Equity	(7) 2007 Projected Return on Common Equity	(8) Bond Rating
AGL Resources, Inc.	49.80%	50.20%	3.40 x	14.8%	1.95 x	13.00%	13.50% *	A-
New Jersey Resources Corp.	65.20%	34.80%	5.00 x	20.0%	2.10 x	12.60%	12.50% *	A+
Northwest Natural Gas Co.	53.60%	46.40%	4.10 x	19.1%	2.03 x	10.60%	10.50% *	AA-
Piedmont Natural Gas Co.	51.70%	48.30%	4.00 x	20.0%	2.25 x	11.00%	11.50% *	A
South Jersey Industries, Inc.	55.30%	44.70%	3.50 x	14.0%	2.38 x	16.30%	17.00% *	BBB+
WGL Holdings, Inc.	61.50%	38.50%	5.10 x	22.0%	1.60 x	10.20%	10.50% *	AA-
Average	**56.18%**	**43.82%**	**4.18** x	**18.3%**	**2.05** x	**12.28%**	**12.58%**	**A**
The Laclede Group	50.40%	49.50%	3.22 x	16.4%	1.53 x	12.50%	9.00% *	A

Sources:

The Value Line Investment Survey Ratings & Reports, March 16, 2007: for columns (1), (2), (6) and (7).
Standard & Poor's RatingsDirect and Response to Staff Data Request 0088 for columns (3), (4), and (8).
AUS Utility Reports, April 2007 for column (5).

Note: * Value Line Estimated.

Schedule 19

Laclede Gas Company
GR-2007-0208

Public Utility Revenue Requirement

or

Cost of Service

The formula for the revenue requirement of a public utility may be stated as follows :

Equation 1 : **Revenue Requirement = Cost of Service**

or

Equation 2 : **R R = O + (V - D) R**

The symbols in the second equation are represented by the following factors :

R R	=	Revenue Requirement
O	=	Prudent Operating Costs, including Depreciation and Taxes
V	=	Gross Valuation of the Property Serving the Public
D	=	Accumulated Depreciation
(V - D)	=	Rate Base (Net Valuation)
(V - D) R	=	Return Amount ($$) or Earnings Allowed on Rate Base
R	=	i L + d P + k E or Overall Rate of Return (%)
i	=	Embedded Cost of Debt
L	=	Proportion of Debt in the Capital Structure
d	=	Embedded Cost of Preferred Stock
P	=	Proportion of Preferred Stock in the Capital Structure
k	=	Required Return on Common Equity (ROE)
E	=	Proportion of Common Equity in the Capital Structure

Weighted Cost of Capital as of March 31, 2007
for Laclede Gas Company

Capital Component	Percentage of Capital	Embedded Cost	Weighted Cost of Capital Using Common Equity Return of: 8.20%	8.70%	9.20%
Common Stock Equity	52.37%	-----	4.29%	4.56%	4.82%
Preferred Stock	0.10%	4.92%	0.00%	0.00%	0.00%
Long-Term Debt	47.53%	6.78%	3.22%	3.22%	3.22%
Short-Term Debt	0.00%	0.00%	0.00%	0.00%	0.00%
Total	**100.00%**		**7.52%**	**7.78%**	**8.04%**