

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the matter of the verified application and petition)
of Laclede Gas Company to change its) Case No. GO-2005-
infrastructure system replacement surcharge)

**VERIFIED APPLICATION AND PETITION
OF LACLEDE GAS COMPANY TO CHANGE ITS
INFRASTRUCTURE SYSTEM REPLACEMENT SURCHARGE**

COMES NOW Laclede Gas Company (“Laclede” or “Company”), pursuant to Sections 393.1009, 393.1012 and 393.1015 of the Revised Statutes of Missouri (2004 Supp.), and 4 CSR 240-2.060, 2.080 and 3.265 of the Rules of the Missouri Public Service Commission (“Commission”), and for its Verified Application and Petition to Change its Infrastructure System Replacement Surcharge, respectfully states as follows:

I. BACKGROUND

1. Sections 393.1009, 393.1012 and 393.1015 of the Revised Statutes of Missouri authorize eligible gas corporations to recover certain infrastructure replacement costs through the implementation of an infrastructure system replacement surcharge (“ISRS”). To that end, Laclede filed a verified application with the Commission on March 1, 2004, to establish an ISRS, based on investments made in natural gas utility plant projects through December 2003. On June 1, 2004, the Commission issued an Order in Case No. GO-2004-0443 in which it approved an ISRS that had been recommended in a Stipulation and Agreement filed by the active parties to that proceeding. The tariffs implementing the ISRS were subsequently approved, effective June 10, 2004.

2. Since that initial ISRS was approved, Laclede has continued to make investments in ISRS-eligible infrastructure system replacements. For the period from January through September 2004, those investments result in additional annualized ISRS revenues that exceed the \$1 million threshold necessary to make an ISRS filing. Accordingly, Laclede submits this Application and Petition to change its ISRS to reflect these additional costs.

II. THE APPLICANT

3. Laclede is a public utility and gas corporation incorporated under the laws of the State of Missouri, with its principal office located at 720 Olive Street, St. Louis, Missouri 63101. A Certificate of Good Standing evidencing Laclede's standing to do business in Missouri was submitted in Case No. GF-2000-843 and is incorporated by reference herein for all purposes. The information in such Certificate is current and correct.

4. Laclede is engaged in the business of distributing and transporting natural gas to customers in the City of St. Louis and the Counties of St. Louis, St. Charles, Crawford, Jefferson, Franklin, Iron, St. Genevieve, St. Francois, Madison, and Butler in Eastern Missouri, as a gas corporation subject to the jurisdiction of the Commission.

5. Communications in regard to this Application should be addressed to:

Michael C. Pendergast
Vice President & Associate General Counsel
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6. Other than cases that have been docketed at the Commission, Laclede has no pending actions or final unsatisfied judgments or decisions against it from any state or federal agency or court which involve customer service or rates.

7. Laclede is current on its annual report and assessment fee obligations to the Commission, and no such report or assessment fee is overdue.

III. THE ISRS REQUEST

8. With this application, Laclede requests an adjustment to its ISRS rate schedule to reflect investments in ISRS-eligible infrastructure system replacements made during the period from January through September 2004. In accordance with the provisions of Sections 393.1009-1015, and 4 CSR 240-3.265, the revised ISRS rate schedule reflects the appropriate pre-tax ISRS revenues necessary to produce net operating income equal to Laclede's weighted cost of capital multiplied by the net original cost of the requested infrastructure replacements during this period that are eligible for the ISRS, including recognition of accumulated deferred income taxes and accumulated depreciation associated with eligible infrastructure system replacements that were included in Laclede's currently effective ISRS. Laclede also seeks to recover all state, federal and local income or excise taxes applicable to such ISRS income, and to recover all other ISRS costs, such as depreciation expense and property taxes, due within 12 months of this filing.

A. Eligibility of Costs

9. The infrastructure system replacements for which Laclede seeks ISRS recognition are set forth on Appendix A, which is attached hereto and made a part hereof for all purposes. The infrastructure system replacements listed on Appendix A are eligible gas utility plant projects in that they are either: a) mains, valves, service lines, regulator stations, vaults, and other pipeline system components installed to comply with state or federal safety requirements as replacements for existing facilities that have worn out or are in deteriorated condition; or b) main relining projects, service line insertion projects, joint encapsulation projects, and other similar projects extending the useful life, or enhancing the integrity of pipeline system components undertaken to comply with state or federal safety requirements; or c) unreimbursed infrastructure facility relocations due to the construction or improvement of a highway, road, street, public way or other public work required by or on behalf of the United States, the State of Missouri, a political subdivision of the State of Missouri, or another entity having the power of eminent domain.

10. In addition to meeting the foregoing criteria, the infrastructure system replacements listed on Appendix A are also eligible for ISRS treatment because they: a) did not increase revenues by directly connecting to new customers; b) are currently in service and used and useful; c) were not included in Laclede's rate base in its most recently completed general rate case, or in a previous ISRS filing; and, d) replaced and/or extended the useful life of existing infrastructure.

11. Finally, the infrastructure system replacements listed on Appendix A are eligible for ISRS treatment because Laclede's last general rate case proceeding was

decided by Commission Orders issued on October 3, 2002 and November 8, 2002, effective November 9, 2002, in Case No. GR-2002-356.

B. Rate Schedules, Calculations and Supporting Documentation

12. Attached hereto as Appendix B is the rate schedule, with supporting documents, proposed by Laclede in order to revise the ISRS to reflect the additional ISRS eligible investments made by Laclede that were not included in its previous ISRS filing. This proposed rate schedule, on an annualized basis, will produce additional ISRS revenues of at least one million dollars, but not in excess of ten percent of Laclede's base revenue level, as approved by the Commission in its most recently completed general rate proceeding.

13. In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule utilizes current local, state and federal income tax rates through a combined income tax rate conversion factor of 1.6276.

14. In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule utilizes the average regulatory capital structure as presented in the testimony of various cost of capital witnesses in Laclede's most recently completed general rate proceeding (Case No. GR-2002-356) and reflects an overall rate of return of 8.16%, which is the average overall rate of return as recommended by the various cost of capital witnesses in Laclede's most recently completed general rate proceeding.

15. In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule utilizes a weighted average cost of debt of 3.80%, which is the average of the weighted debt cost recommendations contained in the testimony of various cost of capital

witnesses in Laclede's most recently completed general rate proceeding, Case No. GR-2002-356.

16. In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule utilizes a cost of common equity of 10.33%, which is the average of the cost of equity recommendations contained in the testimony of the various cost of capital witnesses in Laclede's most recently completed general rate proceeding.

17. In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule utilizes depreciation rates currently applicable to the eligible infrastructure system replacements listed above, as approved by the Commission for Laclede in its most recently completed general rate proceeding, Case No. GR-2002-356.

18. In determining the appropriate monthly ISRS charges, the proposed rate schedule is based on the same reasonable estimate of billing units for the period in which the charge will be in effect that was utilized and approved by the Commission in Laclede's last ISRS filing. Specifically, the charges have been derived by dividing the appropriate pre-tax revenues, as calculated above, by the customer numbers in the most recent annual report filed by Laclede with the Commission, and then further dividing this quotient by twelve. (*See* Appendix B, p. 11). Pursuant to Commission Rule 3.265(14), and the approach approved by the Commission in Laclede's last ISRS filing, the monthly ISRS charge for each customer class has been structured to maintain a proportional relationship equivalent to the proportional relationship of the monthly customer charge for each customer class. The resulting rate elements are calculated to yield the appropriate pre-tax revenues shown on Appendix B, as set forth on pages 1 and 12 of Appendix B.

WHEREFORE, pursuant to 393.1015.2(3) and Commission Rule 3.265(12), Laclede Gas Company respectfully requests that the Commission issue an Order approving a change to Laclede's ISRS rate schedules, effective on or before February 25, 2005, to provide for the recovery of the eligible infrastructure system replacement investments made by Laclede from January through September 2004, and granting such other relief as may be necessary and appropriate to accomplish the purposes of Sections 393.1009 through 393.1015.

Respectfully submitted,

/s/ Rick E. Zucker

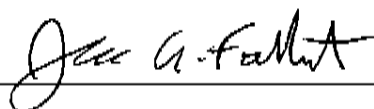
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ATTORNEYS FOR LACLEDE GAS COMPANY

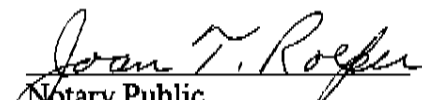
VERIFICATION

State of Missouri)
)
City of St. Louis) ss

I, James A. Fallert, being of lawful age state: that I am Controller for Laclede Gas Company; that I have read the foregoing Application and Petition and the documents attached thereto; that the statements and information set forth in such Application and Petition and attached documents are true and correct to the best of my information, knowledge and belief; and, that I am authorized to make this statement on behalf of Laclede Gas Company.



Subscribed and sworn to before me this 28th day of October, 2004.



Notary Public

My Commission Expires: June 9, 2007

JOAN T. ROEPER
Notary Public — Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: June 9, 2007

CERTIFICATE OF SERVICE

The undersigned certifies that a true and correct copy of the foregoing Application and Petition was served on the General Counsel of the Staff of the Missouri Public Service Commission and the Office of the Public Counsel on this 28th day of October, 2004 by hand-delivery, fax, electronic mail or by placing a copy of such Application, postage prepaid, in the United States mail.

/s/ Rick E. Zucker

Rick E. Zucker