

LACLEDE GAS COMPANY
720 OLIVE STREET
ST. LOUIS, MISSOURI 63101
(314) 342-0532

MICHAEL C. PENDERGAST
VICE PRESIDENT
ASSOCIATE GENERAL COUNSEL

March 1, 2004

VIA EFIS/HAND-DELIVERY

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
Governor Office Building
200 Madison Street
Jefferson City, MO 65101

Re: Application of Laclede Gas Company for approval to establish an infrastructure system replacement surcharge.

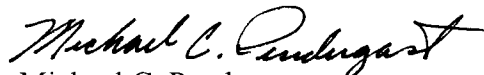
Dear Mr. Roberts:

Enclosed for filing with the Missouri Public Service Commission ("Commission") on behalf of Laclede Gas Company ("Laclede"), please find in electronic format an Application and Petition for Establishment of an Infrastructure System Replacement Surcharge ("ISRS").

By separate cover submitted concurrently herewith, Laclede is also filing a revised tariff sheet to implement the ISRS.

Thank you in advance for seeing that the enclosed is brought to the attention of the Commission and the appropriate Commission personnel. Please do not hesitate to call me if you have any questions.

Sincerely,


Michael C. Pendergast

MCP:kz

cc: Office of the Public Counsel
Office of the General Counsel

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

In the matter of the verified application and petition)
of Laclede Gas Company for establishment of) Case No. GO-2004-
an infrastructure system replacement surcharge)

**VERIFIED APPLICATION AND PETITION
OF LACLEDE GAS COMPANY FOR ESTABLISHMENT
OF AN 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 and 2.080 of the Rules of Practice and Procedure of the Missouri Public Service Commission ("Commission") and for its Verified Application and Petition for Establishment of an Infrastructure System Replacement Surcharge respectfully states as follows:

BACKGROUND

1. On August 28, 2003, Sections 393.1009, 393.1012 and 393.1015 of the Revised Statutes of Missouri became effective. These new statutory provisions authorize eligible gas corporations to recover certain infrastructure replacement costs through the implementation of an infrastructure system replacement surcharge ("ISRS"). Prior to implementing an ISRS, the gas corporation must file a petition with the Commission for review and approval before its rates and charges can be adjusted to provide for the recovery of the ISRS costs. To that end, Laclede submits this Application and Petition.

THE APPLICANT

2. 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. 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.

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

Michael C. Pendergast
Vice President & Associate General Counsel
Laclede Gas Company
720 Olive Street, Room 1520
St. Louis, MO 63101
(314) 342-0532

Glenn W. Buck
Manager, Financial Services
Laclede Gas Company
720 Olive Street, Room 1305
St. Louis, Missouri 63101
(314) 342-0767

4. Other than cases that have been docketed at the Commission, Laclede has no pending actions or final unsatisfied judgements or decisions against it from any state or federal agency or court which involve customer service or rates.

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

THE ISRS REQUEST

6. With this application, Laclede requests an adjustment to its rates and charges through the implementation of an ISRS rate schedule that provides for the recovery of costs for infrastructure system replacements and relocations eligible for ISRS recognition. In accordance with the provisions of Sections 393.1009, 393.1012 and 393.1015, the proposed ISRS rate schedule should reflect 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 which are eligible for the ISRS, including recognition of accumulated deferred income taxes and accumulated depreciation associated with the aforesaid infrastructure system replacements. 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

7. 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.

8. 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; and, d) replaced and/or extended the useful life of existing infrastructure.

9. 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

10. Attached hereto as Appendix B is the rate schedule, with supporting documents, proposed by Laclede in order to establish the ISRS and to provide for the adjustment of its rates and charges to reflect recovery of eligible infrastructure costs. This proposed rate schedule, on an annualized basis, will produce 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.

11. 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.

12. 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.

13. 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.

14. 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.

15. In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule utilizes a current composite property tax rate of 2.68% for the eligible infrastructure system replacements listed above.

16. 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.

17. In determining the appropriate monthly ISRS charge, the proposed rate schedule is based on a reasonable estimate of billing units in the period in which the charge will be in effect, which is derived by dividing the appropriate pre tax revenues, as calculated above, by the customer numbers in the annual report to be filed by Laclede with the Commission on or about April 15, 2004 for the year ending September 30, 2003, and then further dividing this quotient by twelve. (*See Appendix B, p. 11*). For comparison purposes, Laclede has also calculated such billing units and rate elements based on the customer numbers determined in its last general rate case proceeding. (*See Appendix B, p. 12*). The Commission has some discretion to vary the ISRS rate element by customer class under the provisions of Section 393.1015.5(1). Specifically, it may either approve the same ISRS rate element for each class or vary the magnitude of the rate element for each class in proportion to the customer charges applicable to those classes. Consistent with the method recommended by the Staff and approved by the Commission in a prior ISRS proceeding involving another gas corporation (*See Re: Missouri Gas Energy*, Case No. GO-2004-0242, Order Approving an Infrastructure System Replacement Surcharge, but Rejecting Submitted Tariff (February 26, 2004)) the ISRS rate elements for each customer class have been calculated on the latter basis. The resulting rate elements, as necessary to yield the appropriate pre-tax revenues shown on Appendix B, are set forth on pages 1 and 11 of Appendix B.

ADDITIONAL INFORMATION

18. Depending on the time of the Commission's decision, Laclede intends to provide a bill insert or bill message notifying customers of the ISRS charge with the initial bills containing the ISRS. Thereafter, Laclede intends to provide customers with informational bill inserts once a year in which it will explain the ISRS and what it is designed to recover.

19. Laclede will post information on its website to inform customers of the ISRS. The information on this page of the website will reflect information provided in the bill inserts and will be posted to Laclede's website upon the ISRS charge appearing on customer bills.

20. Laclede will provide the Commission with a copy of the talking points and information distributed to its customer call center in connection with this ISRS filing. This information will be distributed to the Company's customer service personnel at least two weeks prior to the charges being included in customer billings.

WHEREFORE, pursuant to 393.1015.2(3), Laclede Gas Company respectfully requests that the Commission issue an Order authorizing: (a): Laclede to recover, effective on or before June 29, 2004, the costs of eligible infrastructure system replacements (as listed on Appendix A) through the establishment of an ISRS that reflects, in an additional rate element, 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 which are eligible for the ISRS, including recognition of accumulated deferred income taxes and accumulated depreciation associated with the aforesaid infrastructure system replacements and to

recover all other ISRS costs, including depreciation expense and property taxes due within 12 months of this filing; and (b) granting such other relief as may be necessary and appropriate to accomplish the purposes of Sections 393.1009 through 393.1015.

Respectfully submitted,

Michael C. Pendergast

Michael C. Pendergast # 31763
Vice President & Associate General Counsel
Rick E. Zucker #49211
Assistant General Counsel –Regulation
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William R. England III *by mcp*

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ATTORNEYS FOR LACLEDE GAS COMPANY

VERIFICATION

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

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.

James A. Fallert

Subscribed and sworn to before me this 21st day of February, 2004.

My Commission Expires: June 9, 2007

Joan T. Roeper
Notary Public

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 1st day of March, 2004 by hand-delivery, fax, electronic mail or by placing a copy of such Application, postage prepaid, in the United States mail.

Michael C. Pankhurst