

Laclede Gas
Company
of St. Louis
Missouri

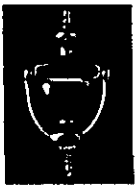


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Annual Report

To Our Shareholders and Employees:



This has been an active and important year in terms of solidifying the financial and operational foundation of Laclede Gas while focusing on opportunities to develop the Company for the future. We are entering the new millennium as a stronger and more energized company.

We have implemented significant changes, begun several key initiatives, and are evaluating others. This year, we were able to prudently but vigorously control costs so that — excluding a one-time charge recorded in fiscal 1999 — our annual earnings were slightly above those of last year (\$28.0 million to \$27.8 million), despite the fact that the weather in our service area was 6% warmer this year than last, 12% warmer than normal, and the seventh warmest on record in the St. Louis area.

The non-recurring charge against 1999 earnings — \$2 million net of income taxes — resulted from the Company's minority participation in Clark Enterprises, a civic-minded group of St. Louis firms that owned the St. Louis Blues National Hockey League franchise and also financed and operated the Kiel Center in downtown St. Louis. This joint effort to keep the Blues in St. Louis and provide the community with a state-of-the-art arena was important to the continued economic development of St. Louis, which is the heart of our service area. The acquisition by the Laurie family of the assets of Clark Enterprises was negotiated and completed in a brief period during September 1999, at the very end of our fiscal year. The resulting one-time charge reduced Laclede's fiscal 1999 earnings by 11 cents per share to \$1.43, compared with \$1.58 per share last year. However, we at Laclede Gas are looking beyond the results of a single season and are focusing on the very way we do business.

We are focusing on providing our customers, both internal and external, with new and improved services quicker and more efficiently than we have done in the past — and certainly better than others can do it.

We are focusing on unleashing the talents of our employees from burdensome practices and procedures that no longer are necessary or efficient in an industry that is in the midst of fundamental change. We are taking groups of individual departments and creating a coordinated, company-wide team that will better be able to define, adapt, and successfully manage its future.

We are focusing on the use of innovative approaches to gain significant achievements, and during fiscal 1999 we had many.

For only the second time in more than 35 years, we issued new shares of common stock. And then, only a few weeks later, we issued \$25 million of new, long-term debt — a coordinated move to strengthen our financial position in a short period of time. Investors, existing and new, aggressively purchased our offering of 1.25 million new shares of common stock, including a 150,000-share over-allotment option, generating net proceeds to Laclede of

\$24.1 million. The new bonds, which were issued at an attractive total cost to Laclede of 7.04%, were rated Aa3 by Moody's and AA- by Standard & Poor's. We are one of only a few gas companies in the nation with bond ratings of this caliber, a further indication of the investment community's confidence in our position.

We took a relatively straightforward gas-price hedging program and made it markedly better. The new program continues to provide our customers with significant protection against market fluctuations in the price of natural gas during the heating season, but now we also have the opportunity to share in any cost reductions and gains that we are able to extract from our transactions in the financial markets. It is my belief that this program is one of the more innovative customer/shareholder incentive programs in our industry.

Our Gas Supply Incentive Plan also was modified and extended for at least another year. This program has produced identifiable gas-cost savings of more than \$90 million during the past three years. The overwhelming portion of those savings benefited our customers; the remainder, of course, benefited our shareholders. We hope to gain approval to have this valuable program in place beyond a single year.

We negotiated and ultimately purchased from Phillips Pipe Line Company seven-plus miles of Mississippi River crossing and associated pipe connecting our Catalan vaporization facility with the Laclede propane pipeline. This purchase, which was accomplished at a reasonable price, gives us — for the first time — uninterrupted pipeline access to our Catalan propane vaporization facilities as part of our valuable peak-shaving capabilities that are used to supplement natural gas supplies during the coldest periods. We also replaced the Mississippi River and canal pipeline crossings from the propane cavern into Illinois.

We protected the very heart of our future growth area in unincorporated West St. Charles County, Missouri, by obtaining voter approval of a franchise to Laclede that resulted in the establishment of beneficial boundaries for our future expansion, while solidifying our service to the General Motors assembly plant.

For the first time in more than 20 years, we took key issues in a general rate case to a full hearing. The Missouri Public Service Commission likely will not make a final ruling on the contested issues in our rate case until mid-December, about the time this Annual Report is being mailed, but given the quality of work our team performed during the entire process and the merits presented, I anticipate the results will be reflective of our positions.

We began to improve the way we conduct our business. We have provided employees with new, technology-driven tools, such as a state-of-the-art telephone system, a new PC network, and a Walker Accounting System that provides those who need the information with *ad hoc* query capabilities to our core business data. This source data will be used to analyze, evaluate, and benchmark

our internal processes.

We are conducting an employee-driven process of re-evaluating the way we do business, and the results so far have been exciting. Individuals and teams of employees are "thinking outside the box" to develop ways to better serve our customers, do a particular job more efficiently, build revenue, or save money. This Process Redesign Program will continue to expand, and more results will be forthcoming.

We made organizational changes to better structure and coordinate the way we define and provide service to our customers, and more are on the way. Customer focus is a never-ending process and will be at the heart of all our plans.

We are well prepared for perhaps the biggest test of the year — the unprecedented challenge of transitioning into a new millennium while in the midst of the ever-changing electronic technology age. The preparations have been extensive and many, but you can expect Laclede and its employees to be "on the job" providing reliable service to our customers as we enter the year 2000 and thereafter.

Indeed, fiscal 1999 was a busy and productive year for Laclede Gas, a year that set the stage for a strong and challenging future. But we are only beginning. We still must identify other skills and areas of expertise that we possess and use them to build on what we already do well. In so doing, we will position ourselves to improve service to our customers, enhance our revenues, and strengthen our Company.

Certainly, we face challenges. We must identify, enter, and develop additional revenue-producing businesses. And we must maintain our leadership position in the ongoing, complex evolution of the energy industry.

Pilot programs operated in some other parts of the country to address so-called "customer choice" issues, in which traditional utility merchant, or sales, functions are unbundled and customers are given the choice of obtaining their natural gas from a number of suppliers, have produced mixed results and generated little enthusiasm. The relatively modest amounts of savings that have been reported under these programs are primarily due to tax avoidance and the failure by non-utility suppliers to charge participating customers the full cost of the transportation services required to serve them. When given a choice of energy suppliers, residential customers, Laclede's largest market segment, have largely preferred to retain the reliable services provided by their local utility. A recent study released by the United States General Accounting Office and approved by the Department of Energy shows that participation in natural gas unbundling programs by smaller customers averaged only about 4% of those eligible.

Given our experience to date, as well as that of others, we at Laclede believe the imposition of a completely unbundled structure will provide Missouri residential consumers with very little in the

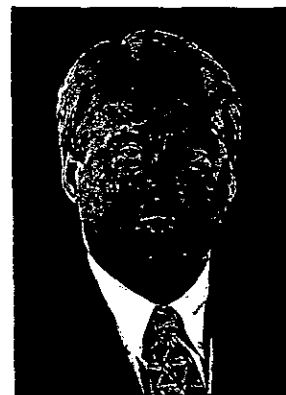
way of incremental benefits and yet needlessly expose them to potentially significant reliability risks.

Laclede's largest industrial and commercial customers have had the option to purchase their own gas supplies from non-regulated, alternative suppliers for more than a decade. Laclede's residential and smaller commercial customers, however, are benefiting significantly from some of the most aggressive customer/shareholder incentive programs in our industry. We have been able to operate with a great deal of success under this Commission-approved incentive structure, bargaining for and obtaining for our smaller customers what we believe are the most attractive prices for reliable gas service afforded by the competitive wholesale market. Moreover, we have done so with the obligation to share these benefits equitably among all of our customer classes. We believe that this type of incentive structure is sustainable and vastly superior to the "unbundled" model.

We are well aware that what the future holds remains uncertain. However, we also are confident that Laclede is fully prepared and capable of operating successfully in whatever new environment exists.

We do not fear change. In fact, an empowered Laclede has almost endless and boundless opportunities to strengthen our core gas distribution business and to broaden our overall business footprint. Our guiding principle in evaluating everything we do or hope to do is to make certain it makes sense for our customers, our shareholders, and our employees.

On behalf of the Board of Directors,



Douglas H. Yaeger
Chairman of the Board, President
and Chief Executive Officer