

LACLEDE GAS CO
Form 10-Q
July 30, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT
OF 1934 For the Quarter Ended June 30, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT
OF 1934 For the Transition Period from _____ to _____

Commission File Number 1-1822

LACLEDE GAS COMPANY

(Exact name of registrant as specified in its charter)

Missouri

43-0368139

(State of Incorporation)

(I.R.S. Employer Identification number)

720 Olive Street

St. Louis, MO 63101

(Address and zip code of principal executive offices)

314-342-0500

(Registrant's telephone number, including area code)

Indicate by check mark if the registrant:

(1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such report) and (2) has been subject to such filing requirements for the past 90 days. Yes No

has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

| | | | |
|-------------------------|-------------------------------------|---------------------------|--------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input checked="" type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> |

is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of July 26, 2013, there were 12,852 shares of the registrant's Common Stock, par value \$1.00 per share, outstanding, 100% of which were owned by The Laclede Group, Inc.

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PART I. FINANCIAL INFORMATION

The interim financial statements included herein have been prepared by Laclede Gas Company (Laclede Gas or the Utility), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). These financial statements should be read in conjunction with the financial statements and the notes thereto included in the Utility's Form 10-K for the fiscal year ended September 30, 2012.

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Item 1. Financial Statements

LACLEDE GAS COMPANY
STATEMENTS OF INCOME
(UNAUDITED)

| (Thousands) | Three Months Ended | | Nine Months Ended | |
|--------------------------------------------|--------------------|-----------|-------------------|-----------|
| | June 30, 2013 | 2012 | June 30, 2013 | 2012 |
| Operating Revenues: | | | | |
| Utility | \$131,540 | \$117,634 | \$746,243 | \$667,159 |
| Other | 217 | 137 | 1,594 | 1,492 |
| Total Operating Revenues | 131,757 | 117,771 | 747,837 | 668,651 |
| Operating Expenses: | | | | |
| Utility | | | | |
| Natural and propane gas | 52,847 | 48,662 | 435,329 | 375,634 |
| Other operation and maintenance expenses | 42,090 | 38,352 | 122,936 | 125,029 |
| Depreciation and amortization | 11,519 | 10,186 | 33,742 | 30,450 |
| Taxes, other than income taxes | 12,968 | 10,842 | 49,525 | 45,602 |
| Total Utility Operating Expenses | 119,424 | 108,042 | 641,532 | 576,715 |
| Other | 5,179 | 21 | 6,407 | 153 |
| Total Operating Expenses | 124,603 | 108,063 | 647,939 | 576,868 |
| Operating Income | 7,154 | 9,708 | 99,898 | 91,783 |
| Other Income and (Income Deductions) – Net | (437 |) (121 |) 1,640 | 3,196 |
| Interest Charges: | | | | |
| Interest on long-term debt | 6,060 | 5,739 | 16,944 | 17,218 |
| Other interest charges | (109 |) 490 | 930 | 1,705 |
| Total Interest Charges | 5,951 | 6,229 | 17,874 | 18,923 |
| Income Before Income Taxes | 766 | 3,358 | 83,664 | 76,056 |
| Income Tax (Benefit) Expense | (2,999 |) (1,272 |) 24,381 | 23,804 |
| Net Income | \$3,765 | \$4,630 | \$59,283 | \$52,252 |

See Notes to Financial Statements.

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LACLEDE GAS COMPANY
 STATEMENTS OF COMPREHENSIVE INCOME
 (UNAUDITED)

| (Thousands) | Three Months Ended | | Nine Months Ended | |
|-------------------------------------------------------------------------------------------------|--------------------|---------|-------------------|----------|
| | June 30, | | June 30, | |
| | 2013 | 2012 | 2013 | 2012 |
| Net Income | \$3,765 | \$4,630 | \$59,283 | \$52,252 |
| Other Comprehensive Income (Loss), Before Tax: | | | | |
| Net gains (losses) on cash flow hedging derivative instruments: | | | | |
| Net hedging (loss) gain arising during the period | (125 |) 69 | 79 | 202 |
| Reclassification adjustment for (gains) losses included in net income | (53 |) (17 |) (138 |) (20 |
| Net unrealized (losses) gains on cash flow hedging derivative instruments | (178 |) 52 | (59 |) 182 |
| Defined benefit pension and other postretirement plans: | | | | |
| Net actuarial loss arising during the period | — | — | — | (2,366 |
| Amortization of actuarial loss included in net periodic pension and postretirement benefit cost | 90 | 66 | 271 | 3,639 |
| Net defined benefit pension and other postretirement plans | 90 | 66 | 271 | 1,273 |
| Other Comprehensive (Loss) income, Before Tax | (88 |) 118 | 212 | 1,455 |
| Income Tax (Benefit) Expense Related to Items of Other Comprehensive Income | (33 |) 45 | 91 | 561 |
| Other Comprehensive (Loss) Income, Net of Tax | (55 |) 73 | 121 | 894 |
| Comprehensive Income | \$3,710 | \$4,703 | \$59,404 | \$53,146 |

See Notes to Financial Statements.

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BALANCE SHEETS
(UNAUDITED)

| (Thousands) | June 30, 2013 | Sept. 30, 2012 | June 30, 2012 |
|-------------------------------------------------|------------------|-------------------|------------------|
| ASSETS | | | |
| Utility Plant | \$ 1,567,296 | \$ 1,497,419 | \$ 1,455,004 |
| Less: Accumulated depreciation and amortization | 484,380 | 478,120 | 474,008 |
| Net Utility Plant | 1,082,916 | 1,019,299 | 980,996 |
| Other Property and Investments | 48,614 | 46,358 | 50,976 |
| Current Assets: | | | |
| Cash and cash equivalents | 28,818 | 2,402 | 1,158 |
| Accounts receivable: | | | |
| Utility | 70,380 | 64,027 | 65,762 |
| Non-utility | — | 1,244 | 1,723 |
| Associated companies | 3,281 | 4,315 | 10,519 |
| Other | 10,226 | 17,288 | 17,096 |
| Allowance for doubtful accounts | (8,920) | (7,601) | (8,738) |
| Delayed customer billings | 11,319 | — | — |
| Inventories: | | | |
| Natural gas stored underground at LIFO cost | 47,460 | 89,852 | 52,426 |
| Propane gas at FIFO cost | 8,962 | 8,963 | 8,964 |
| Materials and supplies at average cost | 4,351 | 3,418 | 3,791 |
| Unamortized purchased gas adjustments | 6,230 | 40,674 | 9,158 |
| Deferred income taxes | 2,281 | — | — |
| Prepayments and other | 12,375 | 9,011 | 10,842 |
| Total Current Assets | 196,763 | 233,593 | 172,701 |
| Deferred Charges: | | | |
| Regulatory assets | 432,664 | 456,047 | 433,376 |
| Other | 5,376 | 4,855 | 4,073 |
| Total Deferred Charges | 438,040 | 460,902 | 437,449 |
| Total Assets | \$ 1,766,333 | \$ 1,760,152 | \$ 1,642,122 |

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LACLEDE GAS COMPANY
BALANCE SHEETS (Continued)
(UNAUDITED)

| (Thousands) | June 30, 2013 | Sept. 30, 2012 | June 30, 2012 |
|-------------------------------------------------------------------------------------------|------------------|-------------------|------------------|
| CAPITALIZATION AND LIABILITIES | | | |
| Capitalization: | | | |
| Common stock and Paid-in capital (12,852, 12,804, and 11,768 shares issued, respectively) | \$262,025 | \$257,415 | \$216,076 |
| Retained earnings | 262,219 | 236,014 | 247,720 |
| Accumulated other comprehensive loss | (1,980) | (2,101) | (1,579) |
| Total Common Stock Equity | 522,264 | 491,328 | 462,217 |
| Long-term debt (less current portion) | 439,444 | 339,416 | 339,401 |
| Total Capitalization | 961,708 | 830,744 | 801,618 |
| Current Liabilities: | | | |
| Notes payable | — | 40,100 | — |
| Notes payable – associated companies | — | 37,125 | 91,756 |
| Accounts payable | 40,649 | 38,391 | 32,242 |
| Accounts payable – associated companies | 2,940 | 2,576 | 1,373 |
| Advance customer billings | — | 25,146 | 6,225 |
| Current portion of long-term debt | — | 25,000 | 25,000 |
| Wages and compensation accrued | 13,386 | 13,908 | 12,653 |
| Dividends payable | 13,901 | 9,354 | 9,339 |
| Customer deposits | 7,828 | 8,565 | 9,123 |
| Interest accrued | 3,854 | 8,590 | 5,405 |
| Taxes accrued | 30,567 | 13,822 | 21,087 |
| Deferred income taxes | — | 10,146 | 1,662 |
| Other | 6,366 | 10,068 | 13,453 |
| Total Current Liabilities | 119,491 | 242,791 | 229,318 |
| Deferred Credits and Other Liabilities: | | | |
| Deferred income taxes | 370,092 | 355,458 | 335,176 |
| Unamortized investment tax credits | 2,953 | 3,113 | 3,166 |
| Pension and postretirement benefit costs | 181,691 | 196,558 | 158,011 |
| Asset retirement obligations | 41,848 | 40,126 | 28,713 |
| Regulatory liabilities | 58,382 | 56,319 | 53,867 |
| Other | 30,168 | 35,043 | 32,253 |
| Total Deferred Credits and Other Liabilities | 685,134 | 686,617 | 611,186 |
| Commitments and Contingencies (<u>Note 8</u>) | | | |
| Total Capitalization and Liabilities | \$1,766,333 | \$1,760,152 | \$1,642,122 |

See Notes to Financial Statements.

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STATEMENTS OF CASH FLOWS
(UNAUDITED)

| (Thousands) | Nine Months Ended June 30, | |
|---------------------------------------------------------------------------------------------|----------------------------|------------|
| | 2013 | 2012 |
| Operating Activities: | | |
| Net Income | \$59,283 | \$52,252 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 33,758 | 30,483 |
| Deferred income taxes and investment tax credits | 11,646 | 21,803 |
| Other – net | 766 | (847) |
| Changes in assets and liabilities: | | |
| Accounts receivable – net | 4,307 | (16,533) |
| Unamortized purchased gas adjustments | 34,444 | 16,561 |
| Deferred purchased gas costs | 12,159 | (25,429) |
| Accounts payable | 8,979 | (13,536) |
| Delayed customer billings - net | (36,465) | (9,005) |
| Taxes accrued | 16,178 | 10,552 |
| Natural gas stored underground | 42,392 | 62,744 |
| Other assets and liabilities | (34,158) | (19,991) |
| Net cash provided by operating activities | 153,289 | 109,054 |
| Investing Activities: | | |
| Capital expenditures | (96,006) | (75,048) |
| Other investments | (1,375) | (1,242) |
| Net cash used in investing activities | (97,381) | (76,290) |
| Financing Activities: | | |
| Issuance of first mortgage bonds | 100,000 | — |
| Maturity of first mortgage bonds | (25,000) | — |
| Repayment of short-term debt — net | (40,100) | (46,000) |
| Borrowings from Laclede Group | 80,245 | 196,075 |
| Repayment of borrowings from Laclede Group | (117,370) | (157,198) |
| Changes in book overdrafts | (1,139) | 223 |
| Dividends paid | (28,533) | (27,737) |
| Issuance of common stock to Laclede Group | 1,895 | 1,965 |
| Excess tax benefits from stock-based compensation | 986 | 186 |
| Other | (476) | (43) |
| Net cash used in financing activities | (29,492) | (32,529) |
| Net Increase in Cash and Cash Equivalents | 26,416 | 235 |
| Cash and Cash Equivalents at Beginning of Period | 2,402 | 923 |
| Cash and Cash Equivalents at End of Period | \$28,818 | \$1,158 |
| Supplemental Disclosure of Cash Paid (Refunded) During the Period for: | | |
| Interest | \$22,269 | \$21,975 |
| Income taxes | (6,551) | 810 |
| See <u>Notes to Financial Statements</u> . | | |

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LACLEDE GAS COMPANY
 NOTES TO FINANCIAL STATEMENTS
 (UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These notes are an integral part of the accompanying unaudited financial statements of Laclede Gas Company (Laclede Gas or the Utility). In the opinion of Laclede Gas, this interim report includes all adjustments (consisting of only normal recurring accruals) necessary for the fair presentation of the results of operations for the periods presented. Laclede Gas is a wholly owned subsidiary of The Laclede Group Inc. (Laclede Group). This Form 10-Q should be read in conjunction with the Notes to Financial Statements contained in the Utility's Fiscal Year 2012 Form 10-K.

Laclede Gas is a regulated natural gas distribution utility having a material seasonal cycle. As a result, these interim statements of income for Laclede Gas are not necessarily indicative of annual results or representative of succeeding quarters of the fiscal year. Due to the seasonal nature of the business of Laclede Gas, earnings are typically concentrated in the November through April period, which generally corresponds with the heating season.

BASIS OF PRESENTATION - In compliance with generally accepted accounting principles (GAAP), transactions between Laclede Gas and its affiliates as well as intercompany balances on Laclede Gas' Balance Sheets have not been eliminated from the Laclede Gas financial statements. Transactions with associated companies include sales of natural gas from Laclede Gas to Laclede Energy Resources, Inc. (LER), sales of natural gas from LER to Laclede Gas, and propane transportation services provided by Laclede Pipeline Company to Laclede Gas. For the quarter ended June 30, 2012 sales of natural gas from Laclede Gas to LER were \$1.2 million. There were no such sales for the quarter ended June 30, 2013. For the nine months ended June 30, 2013 and 2012, such sales were \$10.4 million and \$1.2 million, respectively. Sales of natural gas from LER to Laclede Gas during the quarters ended June 30, 2013 and 2012 were \$9.4 million and \$1.8 million, respectively. For the nine months ended June 30, 2013 and 2012 such sales totaled \$24.4 million and \$10.3 million, respectively. Transportation services provided by Laclede Pipeline Company to Laclede Gas during both the quarters ended June 30, 2013 and 2012 totaled \$0.3 million and were \$0.8 million for both the nine months ended June 30, 2013 and 2012.

Laclede Gas provides administrative and general support to affiliates. All such costs, which are not material, are billed to the appropriate affiliates. Also, Laclede Group may charge or reimburse Laclede Gas for certain tax-related amounts. Unpaid balances relating to these activities are reflected in the Laclede Gas Balance Sheets as Accounts receivable-associated companies or as Accounts payable-associated companies. Additionally, Laclede Gas may borrow funds from Laclede Group. Unpaid balances relating to this arrangement, if any, are reflected in Notes payable-associated companies. Laclede Gas had outstanding borrowings from Laclede Group under a revolving credit note of \$37.1 million and \$91.8 million at September 30, 2012 and June 30, 2012, respectively. The interest rate on these borrowings was 0.2% at September 30, 2012 and 0.3% at June 30, 2012. There was no outstanding balance at June 30, 2013. Advances under this note are due and payable on demand.

REVENUE RECOGNITION - Laclede Gas reads meters and bills its customers on monthly cycles. The Utility records its utility operating revenues from gas sales and transportation services on an accrual basis that includes estimated amounts for gas delivered, but not yet billed. The accruals for unbilled revenues are reversed in the subsequent accounting period when meters are actually read and customers are billed. The amounts of accrued unbilled revenues at June 30, 2013 and 2012, for the Utility, were \$8.7 million and \$9.0 million, respectively. The amount of accrued unbilled revenue at September 30, 2012 was \$11.6 million.

GROSS RECEIPTS TAXES - Gross receipts taxes associated with Laclede Gas' natural gas utility service are imposed on the Utility and billed to its customers. These amounts are recorded gross in the Statements of Income. Amounts recorded in Utility Operating Revenues for the quarters ended June 30, 2013 and 2012 were \$7.8 million and \$5.7 million, respectively. Amounts recorded in Utility Operating Revenues for the nine months ended June 30, 2013 and 2012 were \$35.3 million and \$31.4 million, respectively. Gross receipts taxes are expensed by the Utility and included in the Taxes, other than income taxes line.

STOCK-BASED COMPENSATION - Officers and employees of Laclede Gas, as determined by the Compensation Committee of Laclede Group's Board of Directors, are eligible to be selected for awards under the Laclede Group 2006 Equity Incentive Plan (2006 Plan). Refer to Note 1 of the Notes to Financial Statements included in Laclede Gas' Form 10-K for the fiscal year ended September 30, 2012 for descriptions of the plan. For awards made to its employees, the Utility records its allocation of compensation cost from Laclede Group with a corresponding increase to additional paid-in capital.

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The amounts of compensation cost allocated to the Utility for share-based compensation arrangements for the quarters and nine months ended June 30, 2013 and 2012 are presented below:

| (Thousands) | Three Months Ended | | Nine Months Ended | |
|---------------------------------------------------------------|--------------------|--------|-------------------|---------|
| | June 30, | | June 30, | |
| | 2013 | 2012 | 2013 | 2012 |
| Total equity compensation cost | \$1,440 | \$576 | \$2,946 | \$1,725 |
| Compensation cost capitalized | (536 |) (230 |) (1,075 |) (589 |
| Compensation cost recognized in net income, before income tax | 904 | 346 | 1,871 | 1,136 |
| Income tax benefit recognized in net income | (346 |) (133 |) (716 |) (438 |
| Compensation cost recognized in net income, net of income tax | \$558 | \$213 | \$1,155 | \$698 |

As of June 30, 2013, there was \$5.2 million in unrecognized compensation cost related to nonvested share-based compensation arrangements that is expected to be allocated to the Utility over a weighted average period of 2.1 years. **NEW ACCOUNTING STANDARDS** - In June 2011, the FASB issued ASU No. 2011-05, "Presentation of Comprehensive Income," to amend ASC Topic 220, "Comprehensive Income," by changing certain financial statement presentation requirements. Under the amended guidance, entities may either present a single continuous statement of comprehensive income or, consistent with the Utility's current presentation, provide separate but consecutive statements (a statement of income and a statement of comprehensive income). ASU No. 2011-05 would have required that, regardless of the method chosen, reclassification adjustments from other comprehensive income to net income be presented on the face of the financial statements, displaying the effect on both net income and other comprehensive income. However, in December 2011, the FASB issued ASU No. 2011-12 to defer the effective date of this particular requirement while it reconsiders this provision of the guidance. The amendments in these ASUs do not change the items that are required to be reported in other comprehensive income and, accordingly, did not impact total net income, comprehensive income, or earnings per share upon adoption in the first quarter of fiscal year 2013.

In December 2011, the FASB issued ASU No. 2011-11, "Disclosures about Offsetting Assets and Liabilities," to amend ASC Topic 210, "Balance Sheet," to require additional disclosures about financial instruments and derivative instruments that have been presented on a net basis (offset) in the balance sheet. Additionally, information about financial instruments and derivative instruments that are subject to enforceable master netting arrangements or similar agreements, irrespective of whether they are presented net in the balance sheet, is required to be disclosed. The ASU impacts disclosures only and will not require any changes to financial statement presentation. The Utility will present the new disclosures retrospectively beginning in the first quarter of fiscal year 2014.

In February 2013, the FASB issued ASU No. 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." This ASU amends Accounting Standards Codification (ASC) Topic 220, "Comprehensive Income," by requiring entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to provide information on significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. The Utility will present the new disclosures prospectively beginning in the first quarter of fiscal year 2014.

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2. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS

Pension Plans

Laclede Gas has non-contributory, defined benefit, trustee forms of pension plans covering substantially all employees. Plan assets consist primarily of corporate and U.S. government obligations and a growth segment consisting of exposure to equity markets, commodities, real estate and inflation-indexed securities, achieved through derivative instruments.

Pension costs for the quarters ended June 30, 2013 and 2012 were \$4.2 million and \$4.1 million, respectively, including amounts charged to construction. Pension costs for the nine months ended June 30, 2013 and 2012 were \$12.5 million and \$15.9 million, respectively, including amounts charged to construction.

The net periodic pension costs include the following components:

| (Thousands) | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|--------------------------------------------------|-----------------------------|---------|----------------------------|----------|
| | 2013 | 2012 | 2013 | 2012 |
| Service cost – benefits earned during the period | \$2,311 | \$2,295 | \$6,933 | \$6,908 |
| Interest cost on projected benefit obligation | 4,066 | 4,824 | 12,198 | 14,535 |
| Expected return on plan assets | (4,741) | (4,899) | (14,223) | (14,697) |
| Amortization of prior service cost | 136 | 148 | 408 | 444 |
| Amortization of actuarial loss | 2,839 | 2,252 | 8,517 | 6,788 |
| Loss on lump-sum settlement | 12,346 | — | 12,346 | 3,407 |
| Sub-total | 16,957 | 4,620 | 26,179 | 17,385 |
| Regulatory adjustment | (12,780) | (484) | (13,647) | (1,451) |
| Net pension cost | \$4,177 | \$4,136 | \$12,532 | \$15,934 |

Pursuant to the provisions of the Laclede Gas pension plans, pension obligations may be satisfied by lump-sum cash payments. Pursuant to a Missouri Public Service Commission (MoPSC or Commission) Order, lump-sum payments are recognized as settlements (which can result in gains or losses) only if the total of such payments exceeds 100% of the sum of service and interest costs. Lump-sum payments recognized as settlements were \$39.7 million and \$6.4 million during the nine months ended June 30, 2013 and June 30, 2012 respectively.

Pursuant to a MoPSC Order, the return on plan assets is based on the market-related value of plan assets implemented prospectively over a four-year period. Gains or losses not yet includible in pension cost are amortized only to the extent that such gain or loss exceeds 10% of the greater of the projected benefit obligation or the market-related value of plan assets. Such excess is amortized over the average remaining service life of active participants. The recovery in rates for the Utility's qualified pension plans is based on an annual allowance of \$15.5 million effective January 1, 2011. The difference between these amounts and pension expense as calculated pursuant to the above and that otherwise would be included in the Statements of Income and Statements of Comprehensive Income is deferred as a regulatory asset or regulatory liability.

The funding policy of Laclede Gas is to contribute an amount not less than the minimum required by government funding standards, nor more than the maximum deductible amount for federal income tax purposes. Fiscal year 2013 contributions to the pension plans through June 30, 2013 were \$23.4 million to the qualified trusts and approximately \$0.4 million to the non-qualified plans. Laclede Gas does not expect to make additional contributions to its qualified, trustee pension plans during the remaining three months of fiscal year 2013. Contributions to the non-qualified pension plans for the remaining three months of fiscal 2013 are anticipated to be approximately \$0.8 million.

Postretirement Benefits

Laclede Gas provides certain life insurance benefits at retirement. Medical insurance is available after early retirement until age 65. The transition obligation not yet includible in postretirement benefit cost is being amortized over 20 years. Postretirement benefit costs for both the quarters ended June 30, 2013 and 2012 were \$2.4 million, including amounts charged to construction. Postretirement benefit costs for both the nine months ended June 30, 2013 and 2012 were \$7.1 million, including amounts charged to construction.

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Net periodic postretirement benefit costs consisted of the following components:

| (Thousands) | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|----------------------------------------------------------------|-----------------------------|---------|----------------------------|----------|
| | 2013 | 2012 | 2013 | 2012 |
| Service cost-benefits earned during the period | \$2,534 | \$2,015 | \$7,601 | \$6,045 |
| Interest cost on accumulated postretirement benefit obligation | 1,278 | 1,380 | 3,836 | 4,140 |
| Expected return on plan assets | (1,082 |) (991 |) (3,244 |) (2,973 |
| Amortization of transition obligation | 24 | 34 | 70 | 102 |
| Amortization of prior service cost (credit) | — | (518 |) 2 | (1,554 |
| Amortization of actuarial loss | 1,325 | 1,065 | 3,975 | 3,195 |
| Sub-total | 4,079 | 2,985 | 12,240 | 8,955 |
| Regulatory adjustment | (1,699 |) (604 |) (5,097 |) (1,812 |
| Net postretirement benefit cost | \$2,380 | \$2,381 | \$7,143 | \$7,143 |

Missouri state law provides for the recovery in rates of costs accrued pursuant to GAAP provided that such costs are funded through an independent, external funding mechanism. Laclede Gas established Voluntary Employees' Beneficiary Association (VEBA) and Rabbi trusts as its external funding mechanisms. VEBA and Rabbi trusts' assets consist primarily of money market securities and mutual funds invested in stocks and bonds.

Pursuant to a MoPSC Order, the return on plan assets is based on the market-related value of plan assets implemented prospectively over a four-year period. Gains and losses not yet includible in postretirement benefit cost are amortized only to the extent that such gain or loss exceeds 10% of the greater of the accumulated postretirement benefit obligation or the market-related value of plan assets. Such excess is amortized over the average remaining service life of active participants. The recovery in rates for the Utility's postretirement benefit plans is based on an annual allowance of \$9.5 million effective January 1, 2011. The difference between these amounts and postretirement benefit cost based on the above and that otherwise would be included in the Statements of Income and Statements of Comprehensive Income is deferred as a regulatory asset or regulatory liability.

Laclede Gas' funding policy is to contribute amounts to the trusts equal to the periodic benefit cost calculated pursuant to GAAP as recovered in rates. Fiscal year 2013 contributions to the postretirement plans through June 30, 2013 were \$8.2 million to the qualified trusts and approximately \$0.4 million paid directly to participants from Laclede Gas' funds. Contributions to the postretirement plans for the remaining three months of fiscal year 2013 are anticipated to be \$8.2 million to the qualified trusts and \$0.2 million paid directly to participants from Laclede Gas' funds.

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3. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and estimated fair values of financial instruments not measured at fair value on a recurring basis are as follows:

| (Thousands) | Carrying Amount | Fair Value | Classification of Estimated Fair Value | | |
|-------------------------------------------|-----------------|------------|-------------------------------------------|-----------------------------------------|-------------------------------------------|
| | | | Quoted Prices in Active Markets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| As of June 30, 2013 | | | | | |
| Cash and cash equivalents | \$28,818 | \$28,818 | \$29,794 | \$24 | \$— |
| Short-term debt | — | — | — | — | — |
| Long-term debt, including current portion | 439,444 | 482,648 | — | 482,648 | — |
| As of Sept. 30, 2012 | | | | | |
| Cash and cash equivalents | \$2,402 | \$2,402 | \$2,378 | \$24 | \$— |
| Short-term debt | 77,225 | 77,225 | — | 77,225 | — |
| Long-term debt, including current portion | 364,416 | 452,768 | — | 452,768 | — |
| As of June 30, 2012 | | | | | |
| Cash and cash equivalents | \$1,158 | \$1,158 | \$1,134 | \$24 | \$— |
| Short-term debt | 91,756 | 91,756 | — | 91,756 | — |
| Long-term debt, including current portion | 364,401 | 445,961 | — | 445,961 | — |

The carrying amounts for cash and cash equivalents and short-term debt approximate fair value due to the short maturity of these instruments. The fair values of long-term debt are estimated based on market prices for similar issues. Refer to Note 4, Fair Value Measurements, for information on financial instruments measured at fair value on a recurring basis.

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4. FAIR VALUE MEASUREMENTS

The following table categorizes the assets and liabilities in the Balance Sheets that are accounted for at fair value on a recurring basis in periods subsequent to initial recognition.

| (Thousands) | Quoted Prices in Active Markets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Effects of Netting and Cash Margin Receivables /Payables | Total |
|---------------------------------------------|-------------------------------------------------------|--------------------------------------------------|----------------------------------------------------|----------------------------------------------------------------------|------------|
| As of June 30, 2013 | | | | | |
| Assets | | | | | |
| U. S. Stock/Bond Mutual Funds | \$13,980 | \$— | \$— | \$— | \$13,980 |
| NYMEX natural gas contracts | 1,956 | — | — | (1,956) |) — |
| NYMEX gasoline and heating oil contracts | 136 | — | — | (136) |) — |
| Total | \$16,072 | \$— | \$— | \$(2,092) |) \$13,980 |
| Liabilities | | | | | |
| NYMEX natural gas contracts | \$3,688 | \$— | \$— | \$(3,688) |) \$— |
| As of Sept. 30, 2012 | | | | | |
| Assets | | | | | |
| U. S. Stock/Bond Mutual Funds | \$13,187 | \$— | \$— | \$— | \$13,187 |
| NYMEX natural gas contracts | 7,338 | — | — | (7,338) |) — |
| NYMEX gasoline and heating oil contracts | 344 | — | — | (344) |) — |
| Total | \$20,869 | \$— | \$— | \$(7,682) |) \$13,187 |
| Liabilities | | | | | |
| NYMEX natural gas contracts | \$9,563 | \$— | \$— | \$(9,563) |) \$— |
| As of June 30, 2012 | | | | | |
| Assets | | | | | |
| U. S. Stock/Bond Mutual Funds | \$17,535 | \$— | \$— | \$— | \$17,535 |
| NYMEX natural gas contracts | 2,377 | — | — | (2,377) |) — |
| NYMEX gasoline and heating oil contracts | 107 | — | — | (107) |) — |
| Total | \$20,019 | \$— | \$— | \$(2,484) |) \$17,535 |
| Liabilities | | | | | |
| NYMEX natural gas contracts | \$20,681 | \$— | \$— | \$(20,681) |) \$— |

The mutual funds included in Level 1 are valued based on exchange-quoted market prices of identical securities. Derivative instruments included in Level 1 are valued using quoted market prices on the New York Mercantile Exchange (NYMEX). The Utility's policy is to recognize transfers between the levels of the fair value hierarchy, if any, as of the beginning of the interim reporting period in which circumstances change or events occur to cause the transfer. The mutual funds are included in the Other Property and Investments line of the Balance Sheets. Derivative assets and liabilities, including receivables and payables associated with cash margin requirements, are presented net in the Balance Sheets when a legally enforceable netting agreement exists between Laclede Gas and the counterparty to a derivative contract. For additional information on derivative instruments, see Note 5, Derivative Instruments and Hedging Activities.

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5. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Laclede Gas has a risk management policy that allows for the purchase of natural gas derivative instruments with the goal of managing price risk associated with purchasing natural gas on behalf of its customers. This policy prohibits speculation and permits the Utility to hedge up to 70% of its normal volumes purchased for up to a 36-month period. Costs and cost reductions, including carrying costs, associated with the Utility's use of natural gas derivative instruments are allowed to be passed on to the Utility's customers through the operation of its Purchased Gas Adjustment (PGA) Clause, through which the MoPSC allows the Utility to recover gas supply costs, subject to prudence review by the MoPSC. Accordingly, Laclede Gas does not expect any adverse earnings impact as a result of the use of these derivative instruments. The Utility does not designate these instruments as hedging instruments for financial reporting purposes because gains or losses associated with the use of these derivative instruments are deferred and recorded as regulatory assets or regulatory liabilities pursuant to ASC Topic 980, "Regulated Operations," and, as a result, have no direct impact on the Statements of Income. The timing of the operation of the PGA Clause may cause interim variations in short-term cash flows, because the Utility is subject to cash margin requirements associated with changes in the values of these instruments. Nevertheless, carrying costs associated with such requirements are recovered through the PGA Clause.

From time to time, Laclede Gas purchases NYMEX futures and options contracts to help stabilize operating costs associated with forecasted purchases of gasoline and diesel fuels used to power vehicles and equipment used in the course of its business. At June 30, 2013, Laclede Gas held 0.4 million gallons of gasoline futures contracts at an average price of \$2.25 per gallon. Most of these contracts, the longest of which extends to April 2014, are designated as cash flow hedges of forecasted transactions pursuant to ASC Topic 815, "Derivatives and Hedging." The gains or losses on these derivative instruments are not subject to the Utility's PGA Clause.

The Utility's derivative instruments consist primarily of NYMEX positions. The NYMEX is the primary national commodities exchange on which natural gas derivatives are traded. Open NYMEX natural gas futures positions at June 30, 2013 were as follows:

| | MMBtu (millions) | Avg. Price Per MMBtu |
|-----------------------------|---------------------|----------------------------|
| Open long futures positions | | |
| Fiscal 2013 | 3.42 | \$3.42 |
| Fiscal 2014 | 4.87 | 3.97 |

At June 30, 2013, Laclede Gas also had 17.0 million MMBtu of other price mitigation in place through the use of NYMEX natural gas option-based strategies.

Derivative instruments designated as cash flow hedges of forecasted transactions are recognized on the Balance Sheets at fair value and the change in the fair value of the effective portion of these hedge instruments is recorded, net of tax, in other comprehensive income (OCI). Accumulated other comprehensive income (AOCI) is a component of Total Common Stock Equity. Amounts are reclassified from AOCI into earnings when the hedged items affect net income, using the same revenue or expense category that the hedged item impacts. Based on market prices at June 30, 2013, it is expected that approximately \$0.2 million pre-tax gains will be reclassified into the Statements of Income during the next twelve months. Cash flows from hedging transactions are classified in the same category as the cash flows from the items that are being hedged in the Statements of Cash Flows.

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| The Effect of Derivative Instruments on the Statements of Income and Statements of Comprehensive Income | | | | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|--------------------|---------|-------------------|--------|
| | | Three Months Ended | | Nine Months Ended | |
| | | June 30, | | June 30, | |
| (Thousands) | Location of Gain (Loss) Recorded in Income | 2013 | 2012 | 2013 | 2012 |
| Derivatives in Cash Flow Hedging Relationships | | | | | |
| NYMEX gasoline and heating oil contracts: | | | | | |
| Effective portion of gain (loss) recognized | | | | | |
| in | | \$ (125) | \$ 69 | \$ 79 | \$ 202 |
| OCI on derivatives | | | | | |
| Effective portion of gain reclassified from AOCI to income and maintenance | Utility – Other Operation and Maintenance Expenses | 53 | 17 | 138 | 20 |
| Ineffective portion of gain (loss) on derivatives recognized in income and maintenance | Utility – Other Operation and Maintenance Expenses | 5 | (46) | (127) | (12) |
| Derivatives Not Designated as Hedging Instruments * | | | | | |
| NYMEX gasoline and heating oil contracts: | | | | | |
| (Loss) gain recognized in income on derivative | Other Income and (Income Deductions) – Net | \$(5) | \$(11) | \$41 | \$2 |
| * Gains and losses on Laclede Gas' natural gas derivative instruments, which are not designated as hedging instruments for financial reporting purposes, are deferred pursuant to the Utility's PGA Clause and initially recorded as regulatory assets or regulatory liabilities. These gains and losses are excluded from the table above because they have no direct impact on the Statements of Income. Such amounts are recognized in the Statements of Income as a component of Utility Natural and Propane Gas operating expenses when they are recovered through the PGA Clause and reflected in customer billings. | | | | | |

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Fair Value of Derivative Instruments in the Balance Sheet at June 30, 2013

| (Thousands) | Asset Derivatives | | Liability Derivatives | | * |
|---------------------------------------------------|-----------------------------|------------|-----------------------------|------------|---|
| | Balance Sheet Location | Fair Value | * Balance Sheet Location | Fair Value | |
| Derivatives designated as hedging instruments | | | | | |
| NYMEX gasoline and heating oil contracts | Accounts Receivable - Other | \$ 136 | Accounts Receivable - Other | \$— | |
| Derivatives not designated as hedging instruments | | | | | |
| NYMEX natural gas contracts | Accounts Receivable - Other | 1,956 | Accounts Receivable - Other | 3,688 | |
| Total derivatives | | \$2,092 | | \$3,688 | |

Fair Value of Derivative Instruments in the Balance Sheet at September 30, 2012

| (Thousands) | Asset Derivatives | | Liability Derivatives | | * |
|---------------------------------------------------|-----------------------------|------------|-----------------------------|------------|---|
| | Balance Sheet Location | Fair Value | * Balance Sheet Location | Fair Value | |
| Derivatives designated as hedging instruments | | | | | |
| NYMEX gasoline and heating oil contracts | Accounts Receivable - Other | \$ 334 | Accounts Receivable - Other | \$— | |
| Derivatives not designated as hedging instruments | | | | | |
| NYMEX natural gas contracts | Accounts Receivable - Other | 7,338 | Accounts Receivable - Other | 9,563 | |
| NYMEX gasoline and heating oil contracts | Accounts Receivable - Other | 10 | Accounts Receivable - Other | — | |
| Sub-total | | 7,348 | | 9,563 | |
| Total derivatives | | \$7,682 | | \$9,563 | |

Fair Value of Derivative Instruments in the Balance Sheet at June 30, 2012

| (Thousands) | Asset Derivatives | | Liability Derivatives | | * |
|---------------------------------------------------|-----------------------------|------------|-----------------------------|------------|---|
| | Balance Sheet Location | Fair Value | * Balance Sheet Location | Fair Value | |
| Derivatives designated as hedging instruments | | | | | |
| NYMEX gasoline and heating oil contracts | Accounts Receivable - Other | \$ 106 | Accounts Receivable - Other | \$— | |
| Derivatives not designated as hedging instruments | | | | | |
| NYMEX natural gas contracts | Accounts Receivable - Other | 2,377 | Accounts Receivable - Other | 20,681 | |
| NYMEX gasoline and heating oil contracts | Accounts Receivable - Other | 1 | Accounts Receivable - Other | — | |
| Sub-total | | 2,378 | | 20,681 | |
| Total derivatives | | \$2,484 | | \$20,681 | |

* The fair values of Asset Derivatives and Liability Derivatives exclude the fair value of cash margin receivables or payables with counterparties subject to netting arrangements. Fair value amounts of derivative contracts (including the fair value amounts of cash margin receivables and payables) for which there is a legal right to set off are presented net on the Balance Sheets. As such, the gross balances presented in the table above are not indicative of the Utility's net economic exposure. Refer to Note 4, Fair Value Measurements, for information on the valuation of derivative instruments.

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Following is a reconciliation of the amounts in the tables above to the amounts presented in the Balance Sheets:

| (Thousands) | June 30, 2013 | Sept. 30, 2012 | June 30, 2012 |
|---------------------------------------------------------------|------------------|----------------|------------------|
| Fair value of asset derivatives presented above | \$2,092 | \$7,682 | \$2,484 |
| Fair value of cash margin receivables offset with derivatives | 1,596 | 1,964 | 18,197 |
| Netting of assets and liabilities with the same counterparty | (3,688 |) (9,646 |) (20,681 |
| Derivative instrument assets, per Balance Sheets | \$— | \$— | \$— |
| Fair value of liability derivatives presented above | \$3,688 | \$9,563 | \$20,681 |
| Fair value of cash margin payables offset with derivatives | — | 83 | — |
| Netting of assets and liabilities with the same counterparty | (3,688 |) (9,646 |) (20,681 |
| Derivative instrument liabilities, per Balance Sheets | \$— | \$— | \$— |

Additionally, at June 30, 2013, September 30, 2012, and June 30, 2012 the Utility had \$3.6 million, \$8.0 million, and \$9.0 million respectively in cash margin receivables not offset with derivatives, that are presented in Accounts Receivable - Other.

6. OTHER INCOME AND (INCOME DEDUCTIONS) – NET

| (Thousands) | Three Months Ended June 30, 2013 | | Nine Months Ended June 30, | |
|--------------------------------------------|-------------------------------------|----------|----------------------------|---------|
| | 2013 | 2012 | 2013 | 2012 |
| Interest income | \$ 115 | \$293 | \$746 | \$934 |
| Net investment gain (loss) | 33 | (265 |) 804 | 1,949 |
| Other income | 159 | (14 |) 233 | (3 |
| Other income deductions | (744 |) (135 |) (143 |) 316 |
| Other Income and (Income Deductions) – Net | \$(437 |) \$(121 |) \$1,640 | \$3,196 |

7. INFORMATION BY OPERATING SEGMENT

In the first quarter of fiscal year 2013, Laclede Gas retitled its segment names. The Gas Utility segment, previously titled Regulated Gas Distribution, consists of the regulated operations of Laclede Gas. The Other segment, previously titled Non-Regulated Other, includes Laclede Gas' non-regulated business activities, which are comprised of its propane storage and related services. Accounting policies are described in Note 1. There are no material intersegment revenues.

Management evaluates the performance of the operating segments based on the computation of net economic earnings. Net economic earnings exclude from reported net income the after-tax impacts of net unrealized gains and losses and other timing differences associated with energy-related transactions. Net economic earnings also excludes the after-tax impacts related to unique acquisition, divestiture, and restructuring activities.

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| (Thousands) | Gas Utility | Other | Adjustments & Eliminations | Total |
|----------------------------------|-------------|----------|----------------------------------|------------|
| Three Months Ended June 30, 2013 | | | | |
| Operating revenues | \$ 131,540 | \$ 217 | \$ — | \$ 131,757 |
| Net Economic Earnings | 6,834 | (87 |) — | 6,747 |
| Total assets | 1,766,198 | 135 | — | 1,766,333 |
| Three Months Ended June 30, 2012 | | | | |
| Operating revenues | \$ 117,634 | \$ 137 | \$ — | \$ 117,771 |
| Net Economic Earnings | 4,597 | 72 | — | 4,669 |
| Total assets | 1,640,101 | 2,021 | — | 1,642,122 |
| Nine Months Ended June 30, 2013 | | | | |
| Operating revenues | \$ 746,243 | \$ 1,594 | \$ — | \$ 747,837 |
| Net Economic Earnings | 62,372 | 579 | — | 62,951 |
| Total assets | 1,766,198 | 135 | — | 1,766,333 |
| Nine Months Ended June 30, 2012 | | | | |
| Operating revenues | \$ 667,159 | \$ 1,492 | \$ — | \$ 668,651 |
| Net Economic Earnings | 51,448 | 823 | — | 52,271 |
| Total assets | 1,640,101 | 2,021 | — | 1,642,122 |

Reconciliation of Net Economic Earnings to Net Income

| (Thousands) | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|-----------------------------------------------------------------------------------|--------------------------------|----------|-------------------------------|-----------|
| | 2013 | 2012 | 2013 | 2012 |
| Total Net Economic Earnings above | \$ 6,747 | \$ 4,669 | \$ 62,951 | \$ 52,271 |
| Add: Unrealized (loss) gain on energy-related derivative contracts, net of tax | (10 |) (39 |) (100 |) (19 |
| Add: Acquisition, divestiture, and restructuring costs, net of tax | (2,972 |) — | (3,568 |) — |
| Net Income | \$ 3,765 | \$ 4,630 | \$ 59,283 | \$ 52,252 |

8. COMMITMENTS AND CONTINGENCIES

Commitments

Laclede Gas has entered into various contracts, expiring on dates through fiscal year 2018, for the storage, transportation, and supply of natural gas. Minimum payments required under the contracts in place at June 30, 2013 are estimated at approximately \$149 million. Additional contracts are generally entered into prior to or during the heating season. Laclede Gas recovers its costs from customers in accordance with the PGA Clause.

During fiscal 2012, the Utility initiated a multi-year project to replace its existing customer relationship and work management, financial, and supply chain software applications to enhance its technology, customer service, and business processes. At June 30, 2013, the Utility was contractually committed to costs of approximately \$1.5 million related to this project. The final phase of the project was implemented in July 2013.

Refer to Note 9, Acquisition Agreement, for information about Laclede Gas' commitments associated with the pending acquisition of substantially all of the assets and liabilities of Missouri Gas Energy (MGE).

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Contingencies

Laclede Gas owns and operates natural gas distribution, transmission, and storage facilities, the operations of which are subject to various environmental laws, regulations, and interpretations. While environmental issues resulting from such operations arise in the ordinary course of business, such issues have not materially affected Laclede Gas' financial position and results of operations. As environmental laws, regulations, and their interpretations change, however, Laclede Gas may be required to incur additional costs.

Similar to other natural gas utility companies, Laclede Gas faces the risk of incurring environmental liabilities. In the natural gas industry, these are typically associated with sites formerly owned or operated by gas distribution companies like Laclede Gas and/or its predecessor companies at which manufactured gas operations took place. At this time, Laclede Gas has identified three former manufactured gas plant (MGP) sites where costs have been incurred and claims have been asserted: one in Shrewsbury, Missouri and two in the City of St. Louis, Missouri.

With regard to the former MGP site located in Shrewsbury, Missouri, Laclede Gas and state and federal environmental regulators agreed upon certain remedial actions to a portion of the site in a 1999 Administrative Order on Consent (AOC), which actions have been completed. On September 22, 2008, EPA Region VII issued a letter of Termination and Satisfaction terminating the AOC. However, if after this termination of the AOC, regulators require additional remedial actions, or additional claims are asserted, Laclede Gas may incur additional costs.

One of the sites located in the City of St. Louis is currently owned by a development agency of the City, which, together with other City development agencies, has selected a developer to redevelop the site. In conjunction with this redevelopment effort, Laclede Gas and another former owner of the site entered into an agreement (Remediation Agreement) with the City development agencies, the developer, and an environmental consultant that obligates one of the City agencies and the environmental consultant to remediate the site and obtain a No Further Action letter from the Missouri Department of Natural Resources. The Remediation Agreement also provides for a release of Laclede Gas and the other former site owner from certain liabilities related to the past and current environmental condition of the site and requires the developer and the environmental consultant to maintain certain insurance coverages, including remediation cost containment, premises pollution liability, and professional liability. The operative provisions of the Remediation Agreement were triggered on December 20, 2010, on which date Laclede Gas and the other former site owner, as full consideration under the Remediation Agreement, paid a small percentage of the cost of remediation of the site. The amount paid by Laclede Gas did not materially impact its financial condition, results of operations, or cash flows.

Laclede Gas has not owned the other site located in the City of St. Louis for many years. In a letter dated June 29, 2011, the Attorney General for the State of Missouri informed Laclede Gas that the Missouri Department of Natural Resources had completed an investigation of the site. The Attorney General requested that Laclede Gas participate in the follow up investigations of the site. In a letter dated January 10, 2012, the Utility stated that it would participate in future environmental response activities at the site in conjunction with other potentially responsible parties that are willing to contribute to such efforts in a meaningful and equitable fashion. Further correspondence from the Missouri Attorney General dated April 12, 2012, and November 28, 2012, encouraged Laclede Gas and other present and former owners of the site to move forward with further site investigation for possible remediation via enrollment in the Missouri Department of Natural Resources Brownfields/Voluntary Cleanup Program (BVCP) in lieu of being subjected to enforcement action by the United States Environmental Protection Agency, Region VII. Accordingly, Laclede Gas and the other former and current owners of the site each have entered into, or are in the process of entering into, Provisional Cost Sharing and Environmental Response Agreements enabling Laclede Gas to enroll the property in the BVCP and to fund and conduct additional investigation of the property. Laclede Gas enrolled the site in the BVCP as of April 1, 2013.

To date, amounts required for remediation at these sites have not been material. However, the amount of costs relative to future remedial actions at these and other sites is unknown and may be material. Laclede Gas has notified its insurers that it seeks reimbursement for costs incurred in the past and future potential liabilities associated with the

MGP sites. While some of the insurers have denied coverage and reserved their rights, Laclede Gas continues to discuss potential reimbursements with them. In 2005, the Utility's outside consultant completed an analysis of the MGP sites to determine cost estimates for a one-time contractual transfer of risk from each of the Utility's insurers of environmental coverage for the MGP sites. That analysis demonstrated a range of possible future expenditures to investigate, monitor, and remediate these MGP sites from \$5.8 million to \$36.3 million based upon then currently available facts, technology, and laws and regulations. The actual costs that Laclede Gas may incur could be materially higher or lower depending upon several factors, including whether remedial actions will be required, final selection and regulatory approval of any remedial actions, changing technologies and governmental regulations, the ultimate ability of other potentially responsible parties to pay, the successful completion of remediation efforts required by the Remediation Agreement described above, and any insurance recoveries. Costs associated with environmental remediation activities are accrued when such costs are probable and reasonably estimable.

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Laclede Gas anticipates that any costs it may incur in the future to remediate these sites, less any amounts received as insurance proceeds or as contributions from other potentially responsible parties, would be deferred and recovered in rates through periodic adjustments approved by the MoPSC. Accordingly, any potential liabilities that may arise associated with remediating these sites are not expected to have a material impact on the future financial position and results of operations of Laclede Gas.

The MoPSC Staff previously proposed disallowances related to Laclede Gas' recovery of its purchased gas costs totaling \$6.0 million pertaining to Laclede Gas' purchase of gas from a marketing affiliate, LER, applicable to fiscal years 2005 through 2007. The MoPSC Staff also proposed a number of non-monetary recommendations, based on its review of gas costs for fiscal years 2008 through 2011. Laclede Gas believes that the proposed disallowances lack merit and is vigorously opposing these adjustments. In a related matter, on October 6, 2010, the MoPSC Staff filed a complaint against Laclede Gas alleging that Laclede Gas' affiliate transactions and its Cost Allocation Manual (CAM) violated the MoPSC's affiliate transaction rules. Laclede Gas responded with a counterclaim that the MoPSC Staff had failed to adhere to the affiliate transaction rules and the Utility's CAM. On July 16, 2013, Laclede Gas, the MoPSC Staff and the Office of the Public Counsel requested MoPSC approval of a unanimous stipulation and agreement resolving the affiliate transaction matters for fiscal years 2005 through 2011, resolving the October 6, 2010 complaint, resolving Laclede Gas' counterclaim, presenting a revised CAM for MoPSC approval, and establishing standards of conduct for gas purchases and sales. The parties' request is pending before the MoPSC. Management, after discussion with counsel, continues to believe that the final outcome of these matters will not have a material effect on the Utility's financial position, results of operations, or cash flows.

On July 7, 2010, the MoPSC Staff filed a complaint against Laclede Gas alleging that, by stating that it was not in possession of proprietary LER documents, Laclede Gas violated the MoPSC Order authorizing the holding company structure (2001 Order). Laclede Gas counterclaimed stating the Staff failed to adhere to pricing provisions of the MoPSC's affiliate transaction rules and Laclede Gas' Cost Allocation Manual. By orders dated November 3, 2010 and February 4, 2011, respectively, the MoPSC dismissed Laclede's counterclaim and granted summary judgment to Staff, finding that Laclede Gas violated the terms of the 2001 Order and authorizing its General Counsel to seek penalties in court against Laclede Gas. On May 19, 2011, the MoPSC's General Counsel filed a petition seeking penalties against Laclede Gas for violation of the 2001 Order. The MoPSC and Laclede Gas agreed to hold the penalty case in abeyance pending the outcome of Laclede's appeal of the November 3, 2010 and February 4, 2011 orders. These Orders were reversed by the Cole County Circuit Court, but later upheld by the Western District Court of Appeals. On March 19, 2013, the Missouri Supreme Court declined Laclede Gas' request to review the opinion of the Western District Court of Appeals. As a result, Laclede Gas produced certain LER documentation that had been requested by the MoPSC Staff. In light of such document production, Laclede Gas is currently in discussions with the MoPSC to resolve the penalty case. Management, after discussion with counsel, continues to believe that the final outcome of these matters will not have a material effect on the Utility's financial position, results of operations, or cash flows. On June 29, 2010, the Office of Federal Contract Compliance Programs (OFCCP) issued a Notice of Violations to Laclede Gas alleging lapses in certain employment selection procedures during a two-year period ending in February 2006. On July 2, 2013, Laclede Gas executed a Conciliation Agreement with the OFCCP in which the Company did not admit to liability, but agreed to provide make whole relief of back pay and interest to the impacted parties from 2004-2006. The OFCCP, as of the date of this report, has not yet executed the Conciliation Agreement. The Utility's agreement to provide make whole relief will not have a material effect on its financial position and results of operations, or cash flows.

As discussed in Note 5, Derivative Instruments and Hedging Activities, Laclede Gas enters into NYMEX exchange-traded derivative instruments. Previously, these instruments were held in accounts at MF Global, Inc. On October 31, 2011, affiliated entities of MF Global filed a Chapter 11 petition at the U.S. Bankruptcy Court in the Southern District of New York. Subsequently, the court-appointed bankruptcy trustee transferred all of the open positions and a significant portion of the margin deposits of Laclede Gas to a new brokerage firm. On June 27, 2013 the bankruptcy Trustee issued a statement projecting that MF Global customers would receive a full payout of their claims. As of July 30, 2013, the Utility had \$0.9 million on deposit with MF Global.

Laclede Gas is involved in other litigation, claims, and investigations arising in the normal course of business. Management, after discussion with counsel, believes that the final outcome will not have a material effect on the financial position, results of operations, or cash flows of the Utility.

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9. ACQUISITION AGREEMENT

On January 11, 2013, Laclede Gas, Laclede Group, and Southern Union Company (SUG), an affiliate of Energy Transfer Equity, L.P. and Energy Transfer Partners, L.P. , entered into an assignment and assumption agreement pursuant to which Laclede Gas assumed all duties and obligations under a purchase and sale agreement entered into by a wholly owned subsidiary of Laclede Group on December 14, 2012 to acquire from SUG substantially all of the assets and liabilities of MGE for \$975 million in cash, subject to customary closing adjustments (the Transaction). MGE is engaged in the distribution of natural gas on a regulated basis in western Missouri. Additionally, pursuant to the assignment and assumption agreement, Laclede Gas assumed responsibility for an employee agreement with SUG that provides for the terms and conditions of its employment of persons currently employed by MGE.

On January 14, 2013, the Utility filed an application with the MoPSC for approval to acquire the assets of MGE from SUG. On July 2, 2013, the Utility and other parties to the case filed a Unanimous Stipulation and Agreement with the MoPSC, which was approved on July 17, 2013 authorizing Laclede Gas to acquire MGE, subject to certain conditions. The Transaction is targeted to close before the end of fiscal year 2013, subject to customary closing conditions. On January 22, 2013, the Federal Trade Commission notified the Utility of the early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. No shareholder approval is required to complete the Transaction, and each of the entities has received all necessary approvals from their boards of directors. The purchase and sale agreement contains certain termination rights for both Laclede Gas (as assigned) and SUG, including, among others, the right to terminate if the Transaction is not completed by October 14, 2013 (subject to up to four 30-day extensions under certain circumstances related to obtaining required regulatory approvals). In the event that SUG terminates as a result of the failure of Laclede Gas to obtain financing, it may be required to pay SUG a "reverse break up" fee of \$73.1 million, which amount will operate as liquidated damages and a cap on such liability for such breach.

The Transaction is supported by existing company cash and Laclede Group's fully committed bridge facility with Wells Fargo Bank, National Association. The bridge facility was syndicated to a group of nine financial institutions in January 2013. As a result of Laclede Group's May 2013 equity offering and an amendment to the bridge facility in June 2013, the commitment under the facility was reduced from \$1.020 billion to \$525 million during the third quarter of fiscal year 2013. The Utility anticipates permanent financing to be a combination of long-term debt and equity. Laclede Gas' equity financing will be provided through the sale of additional shares of common stock to Laclede Group.

As a result of the MGE acquisition being assigned to the Utility, beginning in the second quarter of fiscal year 2013, Laclede Gas incurred or was allocated applicable acquisition-related expenses associated with the Transaction. The Utility continues to incur costs associated with the evaluation, approval, and financing of the Transaction. During the three and nine months ended June 30, 2013, Laclede Gas recorded \$3.0 million and \$3.6 million, respectively, net of tax, of third-party expenses associated with the Transaction.

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ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This management’s discussion analyzes the financial condition and results of operations of Laclede Gas Company (Laclede Gas or the Utility). It includes management’s view of factors that affect its business, explanations of past financial results including changes in earnings and costs from the prior year periods, and their effects on overall financial condition and liquidity.

Certain matters discussed in this report, excluding historical information, include forward-looking statements. Certain words, such as “may,” “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” “seek,” and similar words and expressions identify forward-looking statements that involve uncertainties and risks. Future developments may not be in accordance with our current expectations or beliefs and the effect of future developments may not be those anticipated. Among the factors that may cause results to differ materially from those contemplated in any forward-looking statement are:

- weather conditions and catastrophic events, particularly severe weather in the natural gas producing areas of the country;
- volatility in gas prices, particularly sudden and sustained changes in natural gas prices, including the related impact on margin deposits associated with the use of natural gas derivative instruments;
- the impact of changes and volatility in natural gas prices on our competitive position in relation to suppliers of alternative heating sources, such as electricity;
- changes in gas supply and pipeline availability, including decisions by natural gas producers to reduce production or shut in producing natural gas wells as well as other changes that impact supply for and access to our service area;
- legislative, regulatory and judicial mandates and decisions, some of which may be retroactive, including those affecting
 - allowed rates of return
- incentive regulation
- industry structure
- purchased gas adjustment provisions
- rate design structure and implementation
- regulatory assets
- non-regulated and affiliate transactions
- franchise renewals
- environmental or safety matters, including the potential impact of legislative and regulatory actions related to climate change and pipeline safety
- taxes
- pension and other postretirement benefit liabilities and funding obligations
- accounting standards, including the effect of potential changes relative to adoption of or convergence with international accounting standards;
- the results of litigation;
- retention of, ability to attract, ability to collect from, and conservation efforts of, customers;
- capital and energy commodity market conditions, including the ability to obtain funds with reasonable terms for necessary capital expenditures and general operations and the terms and conditions imposed for obtaining sufficient gas supply;
- discovery of material weakness in internal controls; and
- employee workforce issues.

In addition, actual results may differ materially from those contemplated in any forward-looking statement due to the timing and likelihood of the closing of the purchase of substantially all of the assets and liabilities of Missouri Gas Energy (MGE) from Southern Union Company (SUG) (the Transaction) and the other factors discussed in "Risks Related To The Utility's Acquisition Agreement With Southern Union Company" under Part II. Item 1A on page 38 of this Report. Refer to Acquisition Agreement on page 24 for additional information relative to the Transaction.

Readers are urged to consider the risks, uncertainties, and other factors that could affect our business as described in this report. All forward-looking statements made in this report rely upon the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995. We do not, by including this statement, assume any obligation to review or revise any particular forward-looking statement in light of future events.

The Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Utility's Financial Statements and the Notes thereto.

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ACQUISITION AGREEMENT

On January 11, 2013, Laclede Gas, Laclede Group, and SUG entered into an assignment and assumption agreement pursuant to which Laclede Gas assumed all duties and obligations under a purchase and sale agreement entered into by a Laclede Group subsidiary on December 14, 2012 to acquire from SUG substantially all of the assets and liabilities of MGE. The acquisition is targeted to be completed before the end of fiscal year 2013. The strategic rationale for Laclede Gas is described below:

- The transaction will allow Laclede Gas to be able to support growth initiatives in new markets with new customers. In addition, the Utility expects to have better access to the capital markets.

- Laclede Gas will serve Missouri's two largest metropolitan areas in a state where it already has a working relationship with regulators.

- The transaction is expected to be accretive to the Gas Utility segment's net economic earnings in fiscal year 2014 and thereafter. The transaction is expected to be immediately accretive to cash flow.

Completion of the pending acquisition is subject to customary closing conditions. As discussed further in Regulatory and Other Matters, on July 2, 2013, the Utility and other parties to the proceeding filed a Unanimous Stipulation and Agreement with the MoPSC which was approved on July 17, 2013 authorizing Laclede Gas to acquire MGE. No shareholder approval is required to complete the transaction, and each of the entities has received all necessary approvals from their boards of directors. On January 22, 2013, the Federal Trade Commission notified Laclede Group of the early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

The purchase and sale agreement contains certain termination rights for both Laclede Gas (as assigned) and SUG, and further provide for the payment of fees and expenses upon termination under specified circumstances. For additional information relating to the Transaction, see Note 9, Acquisition Agreement, of the Notes to Financial Statements. Also refer to Utility's Current Reports on Form 8-K filed on January 14, 2013, January 18, 2013, January 24, 2013, and July 18, 2013 and Exhibit 2.1 of the Utility's Form 10-Q for the quarter ended December 31, 2012.

RESULTS OF OPERATIONS

Overview

Laclede Gas is a wholly owned subsidiary of The Laclede Group, Inc. (Laclede Group). Laclede Gas is regulated by the MoPSC and serves the City of St. Louis and parts of ten counties in eastern Missouri. Laclede Gas delivers natural gas to retail customers at rates and in accordance with tariffs authorized by the MoPSC. The Utility's earnings are primarily generated by the sale of heating energy. The Utility's weather mitigation rate design lessens the impact of weather volatility on Laclede Gas' customers during cold winters and stabilizes the Utility's earnings by recovering fixed costs more evenly during the heating season. Due to the seasonal nature of the business of Laclede Gas, earnings are typically concentrated in the November through April period, which generally corresponds with the heating season.

Based on the nature of the business of the Utility, as well as current economic conditions, management focuses on the following key variables in evaluating the financial condition and results of operations and managing the business:

- the Utility's ability to recover the costs of purchasing and distributing natural gas from its customers;
- the impact of weather and other factors, such as customer conservation, on revenues and expenses;

changes in the regulatory environment at the federal, state, and local levels, as well as decisions by regulators, that impact the Utility's ability to earn its authorized rate of return;

- the Utility's ability to access credit markets and maintain working capital sufficient to meet operating requirements;
- and,
- the effect of natural gas price volatility on the business.

Further information regarding how management seeks to manage these key variables is discussed below.

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Laclede Gas continues to provide reliable natural gas service at a reasonable cost, while maintaining and building a secure and dependable infrastructure. The Utility's strategy focuses on improving performance and mitigating the impact of weather fluctuations on Laclede Gas' customers while improving the ability to recover its authorized distribution costs and rate of return. The Utility's distribution costs are the essential, primarily fixed, expenditures it must incur to operate and maintain more than 16,000 miles of mains and services comprising its natural gas distribution system and related storage facilities. The Utility's distribution costs include wages and employee benefit costs, depreciation and maintenance expenses, and other regulated utility operating expenses, excluding natural and propane gas expense. Distribution costs are considered in the ratemaking process, and recovery of these types of costs is included in revenues generated through the Utility's tariff rates, as approved by the Missouri Public Service Commission (MoPSC or Commission). The settlement of the Utility's rate case in 2013 retained the Utility's weather mitigation rate design that better ensures the recovery of its fixed costs and margins despite variations in sales volumes due to the impacts of weather and other factors that affect customer usage.

The Utility's income from off-system sales and capacity release remains subject to fluctuations in market conditions. The Utility is allowed to retain 15% to 25% of the first \$6 million in annual income earned (depending on the level of income earned) and 30% of income exceeding \$6 million annually. Some of the factors impacting the level of off-system sales include the availability and cost of the Utility's natural gas supply, the weather in its service area, and the weather in other markets. When Laclede Gas' service area experiences warmer-than-normal weather while other markets experience colder weather or supply constraints, some of the Utility's natural gas supply is available for off-system sales and there may be a demand for such supply in other markets. See the Regulatory and Other Matters section on page 30 of this report for additional information on regulatory issues.

Laclede Gas works actively to reduce the impact of wholesale natural gas price volatility on its costs by strategically structuring its natural gas supply portfolio to increase its gas supply availability and pricing alternatives and through the use of derivative instruments to protect its customers from significant changes in the commodity price of natural gas. Nevertheless, the overall cost of purchased gas remains subject to fluctuations in market conditions.

The Utility's Purchased Gas Adjustment (PGA) Clause allows Laclede Gas to flow through to customers, subject to prudence review by the MoPSC, the cost of purchased gas supplies, including costs, cost reductions, and related carrying costs associated with the use of derivative instruments to hedge the purchase price of natural gas, as well as gas inventory carrying costs. The Utility believes it will continue to be able to obtain sufficient gas supply. The price of natural gas supplies and other economic conditions may affect sales volumes, due to the conservation efforts of customers, and cash flows associated with the timing of collection of gas costs and related accounts receivable from customers.

The Utility relies on both short-term credit and long-term capital markets, as well as cash flows from operations, to satisfy its seasonal cash requirements and fund its cost of capital expenditures. Laclede Gas' ability to issue commercial paper supported by lines of credit, to issue long-term bonds, or to obtain new lines of credit is dependent on current conditions in the credit and capital markets. Management focuses on maintaining a strong balance sheet and believes it currently has adequate access to credit and capital markets and will have sufficient capital resources to meet its foreseeable obligations. See the Liquidity and Capital Resources section on page 32 for additional information.

EARNINGS

QUARTER ENDED JUNE 30, 2013

Net Income

Laclede Gas' net income totaled \$3.8 million for the quarter ended June 30, 2013, a decrease of \$0.9 million compared with the quarter ended June 30, 2012. The decrease was primarily due to (on a pre-tax basis) acquisition costs, totaling \$4.8 million, associated with Utility's pending transaction to acquire MGE, increases in other operation and maintenance expenses totaling \$3.7 million, and higher depreciation and amortization expenses totaling \$1.3 million. These factors were partially offset by higher Gas Utility operating margin (a non-GAAP measure, as discussed below) of \$7.8 million and a reduction in interest charges related to the recognition of previously unrecognized tax benefits totaling \$0.6 million.

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Operating Revenues and Operating Expenses

Laclede Gas reported operating revenues of \$131.8 million for the quarter ended June 30, 2013 compared with \$117.8 million for the same period last year. Operating expenses were \$124.6 million for the quarter, compared with \$108.0 million last year. The increases were primarily due to higher Gas Utility operating revenues and expenses, as discussed further below.

In addition to operating revenues and operating expenses, management also uses the non-GAAP measure of operating margin when evaluating result of operations, as shown in the table below. Operating margin is a non-GAAP financial measure defined as operating revenues less natural and propane gas expenses and associated gross receipts taxes that are billed to customers and expensed by the Utility. This measure may not be comparable to the definition of operating margin used by others in the natural gas distribution business or other industries. Management believes that operating margin provides a meaningful basis for evaluating operating performance since the Utility's natural and propane gas costs and gross receipts tax expenses are included in operating revenues and passed through to customers and, therefore, have no effect on operating margin. Reconciliations of operating margin to the most directly comparable GAAP measure are shown below.

| (Millions) | Gas Utility | Other | Total |
|--------------------------------------|-------------|--------|---------|
| Quarter Ended June 30, 2013 | | | |
| Operating Revenues | \$131.5 | \$0.3 | \$131.8 |
| Natural and propane gas expense | 52.8 | — | 52.8 |
| Gross receipts tax expenses | 8.2 | — | 8.2 |
| Operating margin (non-GAAP) | 70.5 | 0.3 | 70.8 |
| Add: Natural and propane gas expense | 52.8 | — | 52.8 |
| Add: Gross receipts tax expenses | 8.2 | — | 8.2 |
| Less: Total Operating Expenses | (119.4 |)(5.2 |)(124.6 |
| Operating income (GAAP) | \$12.1 | \$(4.9 |)\$7.2 |
| Quarter Ended June 30, 2012 | | | |
| Operating Revenues | \$117.6 | \$0.2 | \$117.8 |
| Natural and propane gas expense | 48.7 | — | 48.7 |
| Gross receipts tax expenses | 6.2 | — | 6.2 |
| Operating margin (non-GAAP) | 62.7 | 0.2 | 62.9 |
| Add: Natural and propane gas expense | 48.7 | — | 48.7 |
| Add: Gross receipts tax expenses | 6.2 | — | 6.2 |
| Less: Total Operating Expenses | (108.0 |)(0.1 |)(108.1 |
| Operating income (GAAP) | \$9.6 | \$0.1 | \$9.7 |

Laclede Gas' operating margin increased \$7.9 million for the quarter ended June 30, 2013, compared to last year primarily due to higher Gas Utility operating margin, as discussed below.

Gas Utility

Laclede Gas passes on to Utility customers (subject to prudence review by the MoPSC) increases and decreases in the wholesale cost of natural gas in accordance with its PGA Clause. The volatility of the wholesale natural gas market results in fluctuations from period to period in the recorded levels of, among other items, revenues and natural gas cost expense. Nevertheless, increases and decreases in the cost of gas associated with system gas sales volumes have no direct effect on operating margin and net income.

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Operating Revenues - Gas Utility operating revenues for the quarter ended June 30, 2013 were \$131.5 million, or \$13.9 million more than the same period last year. Temperatures experienced in the Utility's service area during the quarter ended June 30, 2013, were 101.9% colder than the same quarter last year and 22.2% colder than normal. Total system therms sold and transported were 122.7 million for the quarter ended June 30, 2013, compared with 97.1 million for the same period last year. Total off-system therms sold and transported were 18.2 million for the quarter ended June 30, 2013, compared with 51.4 million for the same period last year. The increase in Gas Utility operating revenues was primarily attributable to the following factors:

(Millions)

| | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|---|
| Higher system sales volumes and other variations | \$23.0 | |
| Lower wholesale gas costs passed on to Utility customers (subject to prudence review by the MoPSC) | (7.5 |) |
| Lower off-system sales volumes (reflecting less favorable market conditions as described in greater detail in the <u>Results of Operations - Overview</u>) | (7.5 |) |
| Higher prices charged for off-system sales | 3.9 | |
| Higher ISRS revenues | 2.0 | |
| Total Variation | \$13.9 | |

Operating Expenses - Gas Utility operating expenses for the quarter ended June 30, 2013 increased \$11.4 million from the same quarter last year. Natural and propane gas expense increased \$4.1 million, or 8.6%, from last year's level, primarily attributable to increased system volumes purchased for sendout, partially offset by lower rates charged by suppliers and lower off-system gas expense. Other operation and maintenance expenses increased \$3.7 million, or 9.7%, primarily due to increased charges for outside services, increased compensation expense, higher employee benefit expenses, and other minor variations, partially offset by a lower provision for uncollectible accounts. Depreciation and amortization expense increased \$1.3 million, or 13.1% primarily due to additional depreciable property. Taxes, other than income taxes, increased \$2.1 million, or 19.6%, primarily due to increased gross receipts taxes (attributable to increased system sales revenues).

Operating Margin - Gas Utility operating margin was \$70.5 million for the quarter ended June 30, 2013, a \$7.8 million increase over the same period last year. The increase is primarily due to increased sales margins reflecting colder weather this year totaling \$5.3 million, higher Infrastructure System Replacement Surcharge (ISRS) revenues totaling \$2.0 million, and other minor variations of \$0.5 million.

Other

Other operating revenues and Other operating margin increased \$0.1 million and Other operating expenses increased by \$5.2 million for the quarter ended June 30, 2013, compared to the same quarter last year. The increase in Other operating expenses was primarily due to acquisition-related costs associated with Laclede Gas' pending transaction to acquire MGE. Additional acquisition expenses are expected to be incurred prior to the closing of the transaction.

Other Income and (Income Deductions) - Net

Other Income and (Income Deductions) - Net decreased by \$0.3 million primarily due to increased charitable donations, partially offset by higher net investment gains and other minor variations.

Interest Charges

Interest charges during the quarter ended June 30, 2013 decreased \$0.3 million from the same period last year primarily due to a reversal of interest charges related to the recognition of previously unrecognized tax benefits,

partially offset by higher interest on long-term debt. The higher interest on long-term debt reflects the net effect of the March 2013 issuance of \$55 million of 3.0% first mortgage bonds and \$45 million of 3.4% first mortgage bonds and the October 2012 maturity of \$25 million of 6 1/2% first mortgage bonds. Average short-term interest rates were 0.3% for both the quarters ended June 30, 2013 and 2012. There were no short-term borrowings for the quarter ended June 30, 2013. Average short-term borrowings were \$100.3 million for the quarter ended June 30, 2012 with an average interest rate of 0.3%.

Income Taxes

The \$1.7 million decrease in income taxes was primarily due to lower pre-tax income and various property-related deductions.

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NINE MONTHS ENDED JUNE 30, 2013

Net Income

Laclede Gas' net income for the nine months ended June 30, 2013 was \$59.3 million, compared with net income of \$52.3 million for the nine months ended June 30, 2012. The \$7.0 million increase in net income was primarily attributable to (on a pre-tax basis) higher Gas Utility operating margin (a non-GAAP measure, as discussed below) of \$15.7 million, a lower provision for uncollectible accounts totaling \$3.2 million, and decreases in employee benefit expenses totaling \$2.1 million. These benefits were partially offset by acquisition costs, totaling \$5.8 million, associated with Utility's pending transaction to acquire MGE and higher depreciation and amortization expenses totaling \$3.3 million.

Operating Revenues and Operating Expenses

Laclede Gas reported operating revenues of \$747.8 million for the quarter ended June 30, 2013 compared with \$668.7 million for the same period last year. Operating expenses were \$647.9 million for the quarter, compared with \$576.9 million last year. The increases were largely due to higher Gas Utility operating revenues and expenses, as discussed further below.

In addition to operating revenues and operating expenses, management also uses the non-GAAP measure of operating margin when evaluating result of operations, as shown in the table below and discussed above. Reconciliations of operating margin to the most directly comparable GAAP measure are shown below.

| (Millions) | Gas Utility | Other | Total |
|----------------------------------------|-------------|---------|----------|
| Nine Months Ended June 30, 2013 | | | |
| Operating Revenues | \$746.2 | \$1.6 | \$747.8 |
| Natural and propane gas expense | 435.3 | — | 435.3 |
| Gross receipts tax expenses | 34.7 | — | 34.7 |
| Operating margin (non-GAAP) | 276.2 | 1.6 | 277.8 |
| Add: Natural and propane gas expense | 435.3 | — | 435.3 |
| Add: Gross receipts tax expenses | 34.7 | \$— | 34.7 |
| Less: Total Operating Expenses | (641.5) |)(6.4) |)(647.9) |
| Operating income (GAAP) | \$104.7 | \$(4.8) |)\$99.9 |
| Nine Months Ended June 30, 2012 | | | |
| Operating Revenues | \$667.2 | \$1.5 | \$668.7 |
| Natural and propane gas expense | 375.6 | — | 375.6 |
| Gross receipts tax expenses | 31.1 | — | 31.1 |
| Operating margin (non-GAAP) | 260.5 | 1.5 | 262.0 |
| Add: Natural and propane gas expense | 375.6 | — | 375.6 |
| Add: Gross receipts tax expenses | 31.1 | — | 31.1 |
| Less: Total Operating Expenses | (576.7) |)(0.2) |)(576.9) |
| Operating income (GAAP) | \$90.5 | \$1.3 | \$91.8 |

Laclede Gas' operating margin increased \$15.8 million for the nine months ended June 30, 2013, compared to last year largely due to higher Gas Utility operating margin, as discussed below.

Gas Utility

Laclede Gas passes on to Utility customers (subject to prudence review by the MoPSC) increases and decreases in the wholesale cost of natural gas in accordance with its PGA Clause. The volatility of the wholesale natural gas market results in fluctuations from period to period in the recorded levels of, among other items, revenues and natural gas cost expense. Nevertheless, increases and decreases in the cost of gas associated with system gas sales volumes have no direct effect on operating margin and net income.

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Operating Revenues - Gas Utility operating revenues for the nine months ended June 30, 2013 were \$746.2 million, or \$79.0 million more than the same period last year. Temperatures experienced in the Utility's service area during the nine months ended June 30, 2013, were 37.0% colder than the same period last year, and 0.2% colder than normal. Total system therms sold and transported were 796.8 million for the nine months ended June 30, 2013, compared with 640.8 million for the same period last year. Total off-system therms sold and transported were 229.4 million for the nine months ended June 30, 2013, compared with 279.7 million for the same period last year. The increase in Gas Utility operating revenues was primarily attributable to the following factors:

(Millions)

| | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|---|
| Higher system sales volumes and other variations | \$97.3 | |
| Lower wholesale gas costs passed on to Utility customers (subject to prudence review by the MoPSC) | (28.6 |) |
| Higher prices charged for off-system sales | 20.1 | |
| Lower off-system sales volumes (reflecting less favorable market conditions as described in greater detail in the <u>Results of Operations - Overview</u>) | (14.2 |) |
| Higher ISRS revenues | 4.4 | |
| Total Variation | \$79.0 | |

Operating Expenses - Gas Utility operating expenses for the nine months ended June 30, 2013 increased \$64.8 million from the same period last year. Natural and propane gas expense increased \$59.7 million, or 15.9%, from last year's level, primarily attributable to increased system volumes purchased for sendout and higher off-system gas expense, partially offset by lower rates charged by our suppliers. Other operation and maintenance expense decreased \$2.1 million, or 1.7%, primarily due to a lower provision for uncollectible accounts, lower employee benefit expenses, a higher rate of overheads capitalized, and reduced customer accounts expenses, partially offset by increased charges for outside services. Depreciation and amortization expense increased \$3.3 million, or 10.8%, primarily due to additional depreciable property. Taxes, other than income taxes, increased \$3.9 million, or 8.6%, primarily due to increased gross receipts taxes (attributable to increased system sales revenues).

Operating Margin - Gas Utility operating margin was \$276.2 million for the nine months ended June 30, 2013, a \$15.7 million increase over the same period last year. The increase is primarily due to increased sales margins reflecting colder weather this year totaling \$10.5 million, higher ISRS revenues totaling \$4.4 million, and other minor variations of \$0.8 million.

Other

Other operating revenues and operating margin for the quarter ended June 30, 2013 increased \$0.1 million compared to the same period last year while Other operating expenses increased by \$6.2 million. The increase in Other operating expenses was primarily due to acquisition-related costs associated with Utility's pending transaction to acquire MGE. Additional acquisition expenses are expected to be incurred prior to the closing of the transaction.

Other Income and (Income Deductions) - Net

Other Income and (Income Deductions) - Net decreased by \$1.6 million primarily due to lower net investment gains, increased charitable donations, and other minor variations.

Interest Charges

Interest charges during the nine months ended June 30, 2013 decreased \$1.0 million from the same period last year primarily due to a reduction in interest charges related to the recognition of previously unrecognized tax benefits. To a lesser extent, the decreased interest charges are attributable to lower interest on long-term debt, reflecting the October

2012 maturity of \$25 million of 6 1/2% first mortgage bonds, partially offset by the March 2013 issuance of \$55 million of 3.0% first mortgage bonds and \$45 million of 3.4% first mortgage bonds. Average short-term interest rates were 0.3% for both the nine months ended June 30, 2013 and 2012. Average short-term borrowings were \$69.3 million for the nine months ended June 30, 2013, compared with \$132.3 million for the nine months ended June 30, 2012.

Income Taxes

The \$0.6 million increase in income taxes was primarily due to higher pre-tax income, partially offset by various property-related deductions.

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REGULATORY AND OTHER MATTERS

The MoPSC Staff previously proposed disallowances related to Laclede Gas' recovery of its purchased gas costs totaling \$6.0 million pertaining to Laclede Gas' purchase of gas from a marketing affiliate, LER, applicable to fiscal years 2005 through 2007. The MoPSC Staff also proposed a number of non-monetary recommendations, based on its review of gas costs for fiscal years 2008 through 2011. Laclede Gas believes that the proposed disallowances lack merit and is vigorously opposing these adjustments. In a related matter, on October 6, 2010, the MoPSC Staff filed a complaint against Laclede Gas alleging that Laclede Gas' affiliate transactions and its Cost Allocation Manual (CAM) violated the MoPSC's affiliate transaction rules. Laclede Gas responded with a counterclaim that the MoPSC Staff had failed to adhere to the affiliate transaction rules and the Utility's CAM. On July 16, 2013, Laclede Gas, the MoPSC Staff and the Office of the Public Counsel requested MoPSC approval of a unanimous stipulation and agreement resolving the affiliate transaction matters for fiscal years 2005 through 2011, resolving the October 6, 2010 complaint, resolving Laclede Gas' counterclaim, presenting a revised CAM for MoPSC approval, and establishing standards of conduct for gas purchases and sales. The parties' request is pending before the MoPSC. Management, after discussion with counsel, continues to believe the final outcome of these matters will not have a material effect on the Utility's financial position, results of operations, or cash flows.

On July 7, 2010, the MoPSC Staff filed a complaint against Laclede Gas alleging that, by stating that it was not in possession of proprietary LER documents, Laclede Gas violated the MoPSC Order authorizing the holding company structure (2001 Order). Laclede Gas counterclaimed stating the Staff failed to adhere to pricing provisions of the MoPSC's affiliate transaction rules and Laclede Gas' Cost Allocation Manual. By orders dated November 3, 2010 and February 4, 2011, respectively, the MoPSC dismissed Laclede's counterclaim and granted summary judgment to Staff, finding that Laclede Gas violated the terms of the 2001 Order and authorizing its General Counsel to seek penalties in court against Laclede Gas. On May 19, 2011, the MoPSC's General Counsel filed a petition seeking penalties against Laclede Gas for violation of the 2001 Order. The MoPSC and Laclede Gas agreed to hold the penalty case in abeyance pending the outcome of Laclede's appeal of the November 3, 2010 and February 4, 2011 orders. These Orders were reversed by the Cole County Circuit Court, but later upheld by the Western District Court of Appeals. On March 19, 2013, the Missouri Supreme Court declined Laclede Gas' request to review the opinion of the Western District Court of Appeals. As a result, Laclede Gas produced certain LER documentation that had been requested by the MoPSC Staff. In light of such document production, Laclede Gas is currently in discussions with the MoPSC to resolve the penalty case. Management, after discussion with counsel, continues to believe the final outcome of these matters will not have a material effect on the Utility's financial position, results of operations, or cash flows.

On December 21, 2012, Laclede Gas filed tariff sheets in a new general rate case proceeding that were designed to increase the Utility's total revenues by \$58.4 million, less the current annualized ISRS revenues of \$10 million that were already being recovered from customers. On December 27, 2012, the MoPSC suspended implementation of the Utility's proposed rates and set the case for hearing in August 2013. However, on June 26, 2013, the MoPSC approved a Unanimous Stipulation and Agreement in which the Utility will incorporate its current annualized ISRS revenues of \$14.8 million into its base rates, effective September 1, 2013. At that time, the ISRS charge will be reset to zero, and the Utility will be permitted to make future ISRS filings for any qualifying expenditures incurred by the Utility after January 31, 2013.

On January 14, 2013, the Utility filed an application with the MoPSC for approval to acquire the assets of MGE from SUG as reported in the Acquisition Agreement section on page 24. On July 2, 2013, the Utility and other parties to the proceeding filed a Unanimous Stipulation and Agreement (Agreement) with the MoPSC resolving all matters in the case, which was approved by the Commission on July 17, 2013. The Agreement authorizes Laclede Gas to acquire MGE and obtain the necessary financing, subject to various conditions set forth in the Agreement. Under the Agreement, Laclede Gas would generally be precluded from filing a general rate case for either its Laclede or MGE Divisions prior to October 1, 2015, except that a general rate case for the MGE service territory may be filed no later

than September 18, 2013. ISRS filings and the collection of gas costs under the PGA Clause would not be impacted. The Agreement also allows for the deferral for future recovery of a portion of one-time costs incurred associated with the integration of MGE. The Agreement sets forth a number of other conditions including those related to credit ratings, gas supply, service quality, gas safety, and reporting requirements.

On January 14, 2013, the Utility made an ISRS filing with the Commission and an increase of \$4.8 million was approved by the MoPSC effective March 15, 2013.

On June 29, 2010, the Office of Federal Contract Compliance Programs (OFCCP) issued a Notice of Violations to Laclede Gas alleging lapses in certain employment selection procedures during a two-year period ending in February 2006. On July 2, 2013, Laclede Gas executed a Conciliation Agreement with the OFCCP in which the Utility did not admit to liability, but agreed to provide make whole relief of back pay and interest to the impacted parties from 2004-2006. The OFCCP, as of the date of this report, has not yet executed the Conciliation Agreement. The Utility's agreement to provide make whole relief will not have a material effect on the financial position and results of operations, or cash flows of the Utility.

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CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition, results of operations, liquidity, and capital resources is based upon our financial statements, which have been prepared in accordance with generally accepted accounting principles (GAAP). GAAP requires that we make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We evaluate our estimates on an ongoing basis. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Our critical accounting policies used in the preparation of our Financial Statements are described in Item 7 of our Annual Report on Form 10-K for the fiscal year ended September 30, 2012 and include the following:

•Accounts receivable and allowance for doubtful accounts

•Employee benefits and postretirement obligations

•Regulated operations

There were no significant changes to these critical accounting policies during the nine months ended June 30, 2013.

For discussion of other significant accounting policies, see Note 1 of the Notes to Financial Statements included in the Utility's Form 10-K for the fiscal year ended September 30, 2012.

ACCOUNTING PRONOUNCEMENTS

The Utility has evaluated or is in the process of evaluating the impact that recently issued accounting standards will have on the Utility's financial position or results of operations upon adoption. For disclosures related to the adoption of new accounting standards, see the New Accounting Standards section of Note 1 of the Notes to Financial Statements.

The Utility continues to monitor the developments of the Financial Accounting Standards Board (FASB) relative to possible changes in accounting standards. Currently, the FASB is considering various changes to U. S. GAAP, some of which may be significant, as part of a joint effort with the International Accounting Standards Board to converge accounting standards. Future developments, depending on the outcome, have the potential to impact the Utility's financial condition and results of operations.

FINANCIAL CONDITION

CASH FLOWS

Laclede Gas' short-term borrowing requirements typically peak during colder months when Laclede Gas borrows money to cover the lag between when it purchases its natural gas and when its customers pay for that gas. Changes in the wholesale cost of natural gas (including cash payments for margin deposits associated with the Utility's use of natural gas derivative instruments), variations in the timing of collections of gas cost under the Utility's PGA Clause, the seasonality of accounts receivable balances, and the utilization of storage gas inventories cause short-term cash requirements to vary during the year and from year to year, and can cause significant variations in the Utility's cash provided by or used in operating activities.

Net cash provided by operating activities was \$153.3 million for the nine months ended June 30, 2013, compared with \$109.1 million for the nine months ended June 30, 2012. The variation is primarily associated with the timing of

collections of gas cost under the Utility's PGA Clause, primarily due to reduced cash payments for margin deposits associated with the Utility's use of natural gas derivative instruments. The variation also reflects decreased cash payments for the funding of pension plans. These benefits are partially offset by changes in delayed and advance customer billings.

Net cash used in investing activities for the nine months ended June 30, 2013 was \$97.4 million, compared with \$76.3 million for the nine months ended June 30, 2012. The variation primarily reflects additional capital expenditures this year for distribution plant and information technology investments.

Net cash used in financing activities was \$29.5 million for the nine months ended June 30, 2013, compared with \$32.5 million for the nine months ended June 30, 2012. The variation primarily reflects the issuance of additional long-term debt this year, largely offset by the effect of increased repayments of short-term borrowings and the maturity of long-term debt.

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LIQUIDITY AND CAPITAL RESOURCES

Cash and Cash Equivalents

Laclede Gas Company had temporary cash investments totaling \$27.4 million at June 30, 2013, earning an average interest rate of 0.1%. These investments, which are presented in the Cash and cash equivalents line of the Balance Sheets, were invested in money market funds. The money market funds are accessible by the Utility on demand. The balance of short-term investments ranged between zero and \$67.0 million during the nine months ended June 30, 2013.

Short-term Debt

As indicated in the discussion of cash flows above, the Utility's short-term borrowing requirements typically peak during the colder months. These short-term cash requirements can be met through the sale of commercial paper supported by lines of credit with banks or through direct use of the lines of credit. At June 30, 2013, Laclede Gas had a syndicated line of credit in place of \$300 million from seven banks, \$257.1 million of which is scheduled to expire in July 2017 and \$42.9 million of which is scheduled to expire in July 2016. The largest portion provided by a single bank is 17.9%. Laclede Gas' line of credit includes a covenant limiting total debt, including short-term debt, to no more than 70% of total capitalization. As a result of certain amendments made on January 16, 2013, this maximum percentage will temporarily increase to 72.5% if the MGE acquisition is consummated. Such temporary increase would be effective from the date of the consummation through September 30, 2014. As defined in the line of credit, total debt was 46% of total capitalization on June 30, 2013.

To support the liquidity needs of the Utility following the MGE acquisition, Laclede Gas plans to enter into new expanded credit facilities at or just prior to the closing of the MGE acquisition.

Due to lower yields available to Laclede Group on its short-term investments, Laclede Group elected to provide a portion of Laclede Gas' short-term funding through intercompany lending during the nine months ended June 30, 2013, but there were no such borrowings outstanding as of June 30, 2013. Information about the Utility's short-term borrowings during the nine months ended June 30, 2013 and as of June 30, 2013, is presented below:

| | Commercial Paper Borrowings | Borrowings from Laclede Group | Total Short-Term Borrowings |
|-----------------------------------------|--------------------------------|----------------------------------|-----------------------------------|
| Nine Months Ended June 30, 2013 | | | |
| Weighted average borrowings outstanding | \$40.6 million | \$28.7 million | \$69.3 million |
| Weighted average interest rate | 0.3% | 0.3% | 0.3% |
| Range of borrowings outstanding | \$0.0 – \$99.4 million | \$0.0 - \$74.6 million | \$0.0 - \$151.0 million |
| As of June 30, 2013 | | | |
| Borrowings outstanding at end of period | none | none | none |
| Weighted average interest rate | N/A | N/A | N/A |

Based on average short-term borrowings for the nine months ended June 30, 2013, an increase in the average interest rate of 100 basis points would decrease the Utility's pre-tax earnings and cash flows by approximately \$0.7 million on an annual basis, portions of which may be offset through the application of PGA carrying costs.

Long-term Debt and Equity

On March 15, 2013, Laclede Gas issued \$100 million of first mortgage bonds in a private placement that had been committed to in August 2012. Of this \$100 million, \$55 million were issued at 3.00% for a 10-year term, maturing in March 2023, and \$45 million were issued at 3.40% for a 15-year term, maturing in March 2028. The proceeds were used for the repayment of short-term debt and general corporate purposes.

Laclede Gas had on file with the SEC an effective shelf registration on Form S-3 for issuance of \$350 million of first mortgage bonds, unsecured debt, and preferred stock, that expired May 28, 2013.

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The Utility has MoPSC authority to issue debt securities and preferred stock, including on a private placement basis, as well as to issue common stock, receive paid-in capital, and enter into capital lease agreements, all for a total of up to \$518 million. This authorization was originally effective through June 30, 2013. In August 2012, Laclede Gas filed a request with the MoPSC to extend this authority for an additional two years, to June 30, 2015.

This extension became effective on November 23, 2012. During the nine months ended June 30, 2013, pursuant to this authority, the Utility sold 48 shares of its common stock to Laclede Group for \$1.9 million. For more information on these sales of stock, see Part II., Item 2. Unregistered Sales of Equity Securities and Use of Proceeds. As of July 26, 2013, \$371.2 million remains available under this authorization. As part of the MoPSC's approval of the acquisition of MGE on July 17, 2013, Laclede Gas was granted authorization to issue debt and equity securities of up to \$1.02 billion to finance the MGE acquisition at any time beginning July 31, 2013 and ending one year after closing of the transaction. The amount, timing, and type of additional financing to be issued, including in connection with the MGE acquisition as described below, will depend on cash requirements and market conditions, as well as future MoPSC authorizations.

On October 15, 2012, Laclede Gas paid at maturity \$25 million principal amount of 6 1/2% first mortgage bonds. At June 30, 2013, Laclede Gas had fixed-rate long-term debt totaling \$440 million. While the remaining long-term debt issues are fixed-rate, they are subject to changes in their fair value as market interest rates change. However, increases or decreases in fair value would impact earnings and cash flows only if Laclede Gas were to reacquire any of these issues in the open market prior to maturity. Under GAAP applicable to Laclede Gas' regulated operations, losses or gains on early redemptions of long-term debt would typically be deferred as regulatory assets or regulatory liabilities and amortized over a future period. Of the Utility's \$440 million in long-term debt, \$25 million have no call option, \$335 million have make-whole call options, and \$80 million are callable at par on or after October 15, 2013. None of the debt has any put options.

As discussed previously, in January 2013, Laclede Group assigned its agreement to acquire the assets of Missouri Gas Energy for \$975 million to Laclede Gas. In December 2012, Laclede Group had entered into a fully committed bridge facility for \$1.020 billion with Wells Fargo Bank, National Association in order to fund the acquisition. The bridge facility, on which Laclede Group remains the borrower, was syndicated by Wells Fargo Securities, LLC, to a group of nine banks, effective on January 16, 2013. On May 29, 2013, in order to finance a portion of the acquisition, Laclede Group issued 10,005,000 shares of common stock for net proceeds of \$428 million. As a result of the equity offering and an amendment made to the bridge facility in June 2013, the commitment under the bridge facility was reduced to \$525 million during the quarter ended June 30, 2013. The remainder of the purchase price is expected to be funded with long-term debt of Laclede Gas and/or Laclede Group, short-term debt and cash on hand. Laclede Group has entered into interest rate hedges for approximately 79% of the expected long-term debt issuance to protect against the impacts of adverse movements in rates. Additional interest rate hedging may be done by either Laclede Gas or Laclede Group prior to completing the debt financing.

Other

The Utility's access to capital markets, including the commercial paper market, and its financing costs, may depend on its credit rating. The credit ratings of the Utility remain at investment grade, but are subject to review and change by the rating agencies.

Utility capital expenditures were \$96.0 million for the nine months ended June 30, 2013, compared with \$75.0 million for the same period last year. The increase in capital expenditures, compared with the prior period, is primarily attributable to additional expenditures for distribution plant and information technology investments. During fiscal 2011, Laclede Gas began a multi-year project to enhance its technology, customer service, and business processes by replacing its existing customer relationship and work management, financial, and supply chain software applications.

The final phase of the project was implemented in July 2013.

Capitalization at June 30, 2013 consisted of 54.3% common stock equity and 45.7% long-term debt.

It is management's view that Laclede Gas has adequate access to capital markets and will have sufficient capital resources, both internal and external, to meet anticipated capital requirements, which primarily include the pending acquisition of MGE, capital expenditures, scheduled maturities of long-term debt, short-term seasonal needs, and dividends.

The seasonal nature of Laclede Gas' sales affects the comparison of certain balance sheet items at June 30, 2013 and at September 30, 2012, such as Accounts receivable - net, Gas stored underground, Notes payable, Accounts payable, Regulatory assets and Regulatory liabilities, and Delayed and Advance customer billings. The Balance Sheet at June 30, 2012 is presented to facilitate comparison of these items with the corresponding interim period of the preceding fiscal year.

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CONTRACTUAL OBLIGATIONS

As of June 30, 2013, Laclede Gas had contractual obligations with payments due as summarized below (in millions):

| Contractual Obligations | Total | Payments due by period | | | |
|----------------------------------------|-----------|----------------------------|------------------------|------------------------|----------------------------------|
| | | Remaining Fiscal Year 2013 | Fiscal Years 2014-2015 | Fiscal Years 2016-2017 | Fiscal Years 2018 and thereafter |
| Principal Payments on Long-Term Debt | \$440.0 | \$— | \$— | \$— | \$440.0 |
| Interest Payments on Long-Term Debt | 458.0 | 4.1 | 49.0 | 49.1 | 355.8 |
| Capital Leases (a) | 0.2 | 0.1 | 0.1 | — | — |
| Operating Leases (a) | 10.4 | 1.3 | 7.2 | 1.8 | 0.1 |
| Purchase Obligations – Natural Gas (b) | 148.7 | 47.1 | 83.3 | 15.0 | 3.3 |
| Purchase Obligations – Other (c) | 80.2 | 14.8 | 26.4 | 18.5 | 20.5 |
| Total (d) (e) | \$1,137.5 | \$67.4 | \$166.0 | \$84.4 | \$819.7 |

(a) Lease obligations are primarily for office space, vehicles, and power operated equipment. Additional payments will be incurred if renewal options are exercised under the provisions of certain agreements.

These purchase obligations represent the minimum payments required under existing natural gas transportation and storage contracts and natural gas supply agreements. These amounts reflect fixed obligations as well as obligations to purchase natural gas at future market prices, calculated using June 30, 2013 NYMEX futures prices. Laclede

(b) Gas recovers the costs related to its purchases, transportation, and storage of natural gas through the operation of its PGA Clause, subject to prudence review by the MoPSC; however, variations in the timing of collections of gas costs from customers affect short-term cash requirements. Additional contractual commitments are generally entered into prior to or during the heating season.

(c) These purchase obligations primarily reflect miscellaneous agreements for the purchase of materials and the procurement of services necessary for normal operations.

The category of Other Long-Term Liabilities has been excluded from the table above because there are no material amounts of contractual obligations under this category. Long-term liabilities associated with unrecognized tax benefits, totaling \$2.6 million, have been excluded from the table above because the timing of future cash outflows, if any, cannot be reasonably estimated. Also, commitments related to pension and postretirement benefit plans have been excluded from the table above. Laclede Gas does not expect to make additional contributions to its qualified,

(d) trusted pension plans during the remaining three months of fiscal year 2013. Laclede Gas anticipates a \$0.8 million contribution relative to its non-qualified pension plans during the remaining three months of fiscal year 2013. With regard to the postretirement benefits, the Utility anticipates it will contribute \$8.2 million to the qualified trusts and \$0.2 million directly to participants from Laclede Gas' funds during the remaining three months of fiscal year 2013. For further discussion of the Utility's pension and postretirement benefit plans, refer to Note 2, Pension Plans and Other Postretirement Benefits, of the Notes to Financial Statements.

(e) The table above does not include the Utility's potential payment of a "reverse break up" fee of \$73.1 million that would be due in the event that SUG terminates the MGE acquisition agreement as a result of the failure of Laclede Gas to obtain financing. See Note 9, Acquisition Agreement, of the Notes to Financial Statements for further details. Also, the table does not include any anticipated additional long-term debt to finance the acquisition.

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MARKET RISK

Commodity Price Risk

Laclede Gas' commodity price risk, which arises from market fluctuations in the price of natural gas, is primarily managed through the operation of its PGA Clause. The PGA Clause allows Laclede Gas to flow through to customers, subject to prudence review by the MoPSC, the cost of purchased gas supplies. The Utility is allowed the flexibility to make up to three discretionary PGA changes during each year, in addition to its mandatory November PGA change, so long as such changes are separated by at least two months. The Utility is able to mitigate, to some extent, changes in commodity prices through the use of physical storage supplies and regional supply diversity. Laclede Gas also has a risk management policy that allows for the purchase of natural gas derivative instruments with the goal of managing its price risk associated with purchasing natural gas on behalf of its customers. This policy prohibits speculation. Costs and cost reductions, including carrying costs, associated with the Utility's use of natural gas derivative instruments are allowed to be passed on to the Utility's customers through the operation of its PGA Clause. Accordingly, Laclede Gas does not expect any adverse earnings impact as a result of the use of these derivative instruments. However, the timing of recovery for cash payments related to margin requirements may cause short-term cash requirements to vary. Nevertheless, carrying costs associated with such requirements, as well as other variations in the timing of collections of gas costs, are recovered through the PGA Clause. For more information about the Utility's natural gas derivative instruments, see Note 5, Derivative Instruments and Hedging Activities, of the Notes to Financial Statements.

Interest Rate Risk

The Utility is subject to interest rate risk associated with its long-term and short-term debt issuances. Based on average short-term borrowings during the nine months ended June 30, 2013, an increase of 100 basis points in the underlying average interest rate for short-term debt would have caused an increase in interest expense of approximately \$0.7 million on an annual basis. Portions of such increases may be offset through the application of PGA carrying costs. At June 30, 2013, Laclede Gas had fixed-rate long-term debt totaling \$440 million. While these long-term debt issues are fixed-rate, they are subject to changes in fair value as market interest rates change. However, increases or decreases in fair value would impact earnings and cash flows only if Laclede Gas were to reacquire any of these issues in the open market prior to maturity. Under GAAP applicable to Laclede Gas' regulated operations, losses or gains on early redemptions of its long-term debt would typically be deferred as regulatory assets or regulatory liabilities and amortized over a future period.

ENVIRONMENTAL MATTERS

Laclede Gas owns and operates natural gas distribution, transmission and storage facilities, the operations of which are subject to various environmental laws, regulations and interpretations. While environmental issues resulting from such operations arise in the ordinary course of business, such issues have not materially affected Laclede Gas' financial position and results of operations. As environmental laws, regulations, and their interpretations change, however, Laclede Gas may be required to incur additional costs. For information relative to environmental matters, see Note 8, Commitments and Contingencies, of the Notes to Financial Statements.

OFF-BALANCE SHEET ARRANGEMENTS

Laclede Gas has no off-balance sheet arrangements.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

For this discussion, see Part I., Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Market Risk, on page 36 of this report.

Item 4. Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15e and Rule 15d-15e under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective.

There have been no changes in our internal control over financial reporting that occurred during our third fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. However, as management has not yet completed all of its testing of the operating effectiveness of all controls related to a significant system implementation that occurred earlier in the year, it will continue to evaluate the operating effectiveness of key controls during subsequent periods.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For a description of environmental matters and legal proceedings, see Note 8, Commitments and Contingencies, of the Notes to Financial Statements. For a description of pending regulatory matters of Laclede Gas, see Part I., Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Regulatory and Other Matters, on page 30 of this report.

Laclede Gas is involved in litigation, claims and investigations arising in the normal course of business. Management, after discussion with counsel, believes that the final outcome of these matters will not have a material effect on the financial position or results of operations of the Utility.

Item 1A. Risk Factors

The following paragraphs should be read in conjunction with the risk factors included in Part I, Item 1A of the Utility's Annual Report on Form 10-K for the year ended September 30, 2012.

RISKS RELATED TO THE UTILITY'S ACQUISITION AGREEMENT WITH SOUTHERN UNION COMPANY

The transaction may not be completed or may be approved subject to unfavorable regulatory conditions, which could adversely affect anticipated benefits and/or Laclede Gas' business, financial condition and/or results of operations.

On December 14, 2012, Laclede Group, through two newly formed wholly owned subsidiaries, Plaza Missouri Acquisition, Inc. (Plaza Missouri) and Plaza Massachusetts Acquisition, Inc. (Plaza Massachusetts), entered into acquisition agreements to acquire from Southern Union Company (SUG) substantially all of the assets and liabilities of Missouri Gas Energy (MGE) and New England Gas Company (NEG). Subsequently, on January 11, 2013, Laclede Group and Plaza Missouri, with consent of SUG, entered into an agreement with Laclede Gas to assign the MGE agreement to Laclede Gas. On February 11, 2013, Laclede Group announced that it entered into an agreement with Algonquin Power & Utilities Corp. (APUC) that will allow an APUC subsidiary, through its acquisition of the stock of Plaza Massachusetts, to acquire Laclede Group's rights to purchase the assets of NEG, subject to certain approvals and conditions. However, Laclede Group remains obligated to acquire NEG in the event that APUC is not able to satisfy all conditions to closing on or before October 14, 2013, although Laclede Group believes this scenario will be unlikely. Laclede Group's agreement with APUC is not expected to impact the MGE transaction. Nonetheless, there can be no assurance that APUC will be able to satisfy all of the required conditions on or before this date.

On July 2, 2013, the Utility and other parties to the case, filed a Unanimous Stipulation and Agreement with the Missouri Public Service Commission (MoPSC) that authorizes Laclede Gas to complete the acquisition of MGE, subject to certain conditions, including restrictions relative to the timing of filing for general rate increases. This Unanimous Stipulation and Agreement was approved by the MoPSC on July 17, 2013. Although the MoPSC approval satisfies one of the closing conditions under the MGE acquisition agreement, the closing remains subject to the satisfaction or waiver of all conditions precedent as described in the MGE acquisition agreement, including the ability to close the NEG transaction concurrently with the MGE acquisition. In order to close the NEG transaction, approval by the Massachusetts Department of Public Utilities (MDPU) of the acquisition of the assets of NEG by the APUC subsidiary must be received. If the NEG transaction is not closed or capable of closing or SUG does not waive such condition, the closing of the MGE acquisition would be delayed until the conditions precedent to the NEG transaction are satisfied, including the condition of MDPU approval. There can be no assurance as to the receipt or timing of the necessary MDPU approvals or any waivers from SUG.

In addition, the acquisition agreement contains other customary closing conditions which may not be satisfied or waived or may take longer than anticipated to satisfy. The pending transaction subjects Laclede Gas to a number of additional risks, including the following:

- the Utility's estimates of the costs to complete the acquisition and the operating performance after the acquisition closes may vary significantly from actual results;

- both before and after the closing of the acquisition, the attention of management may be diverted to the acquisition and subsequent integration of MGE rather than to current operations or the pursuit of other opportunities that could be beneficial to the Utility; and

- the potential loss of key employees of the Utility or of MGE who may be uncertain about their future roles if and when the acquisition is completed.

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The MGE acquisition agreement contains certain termination rights for both the Utility and SUG, including, among others, the right to terminate if the acquisition is not completed by October 14, 2013 (subject to up to four 30-day extensions under certain circumstances related to obtaining required regulatory approvals). In the event that SUG terminates the MGE acquisition agreement as a result of the failure of Laclede Gas to obtain financing, the Utility may be required to pay SUG a "reverse break up" fee of \$73.1 million, which amount will operate as liquidated damages and a cap on such liability for such breach.

The occurrence of any of these events individually or in combination could have a material adverse effect on the Utility's business, financial condition or results of operations.

Laclede Gas expects to issue significant debt in order to provide permanent financing for the acquisition of MGE in lieu of and/or to refund borrowings under Laclede Group's bridge loan facility at or after closing the acquisition, and, as a result the Utility is subject to market risks including market demand for debt offerings, interest rate volatility and adverse impacts on its credit ratings.

In connection with the acquisition agreement, Laclede Group has obtained a commitment from Wells Fargo Bank, National Association and various other banks for a syndicated bridge loan facility, which may be used to finance a significant portion of the acquisition and pay related fees and expenses in the event that permanent financing is not completed at the time of the closing of the acquisitions. The equity portion of the permanent financing was completed on May 29, 2013 when Laclede Group completed a public offering of its common stock, which generated net proceeds of \$428.0 million, funding from which is expected to be provided to Laclede Gas through sale of additional shares of Laclede Gas stock to Laclede Group. As a result of Laclede Group's equity offering and an amendment made to the bridge facility in June 2013, the commitment under the bridge facility was reduced from \$1.020 billion to \$525 million during the third quarter of fiscal year 2013. The permanent financing is anticipated to also include a mix of long-term debt of Laclede Group and/or Laclede Gas. Depending on market conditions, the permanent financing may include other instruments such as convertible debt, preferred shares, or term loans.

Although Laclede Group and its advisers believe they have taken prudent steps to position the Utility for successful capital raises, there can be no assurance as to the ultimate cost or availability of permanent financing.

Among other risks, the planned increase in indebtedness may:

- make it more difficult for Laclede Gas to pay or refinance its debts as they become due during adverse economic and industry conditions;

- limit the Utility's flexibility to pursue other strategic opportunities or react to changes in its business and the industry in which it operates and, consequently, place it at a competitive disadvantage to competitors with less debt;

- require an increased portion of the Utility's cash flows from operations to be used for debt service payments, thereby reducing the availability of its cash flow to fund working capital, capital expenditures, dividend payments and other general corporate purposes;

- result in a downgrade in the credit rating of the Utility's indebtedness, which could limit its ability to borrow additional funds or increase the interest rates applicable to its indebtedness;

- result in higher interest expense in the event of increases in market interest rates for both long-term debt as well as short-term commercial paper or bank loans at variable rates;

- reduce the amount of credit available to support hedging activities; and

- require that additional terms, conditions or covenants be placed on the Utility.

In addition, in order to maintain investment-grade credit ratings, Laclede Gas may consider it appropriate to reduce the amount of indebtedness outstanding following the acquisition. This may be accomplished in several ways, including reducing discretionary uses of cash. The specific measures that management may ultimately decide to use to maintain or improve its credit ratings and their timing, will depend upon a number of factors, including market

conditions and forecasts at the time those decisions are made.

The acquisition and associated costs and integration efforts may adversely affect the Utility's business, financial condition or results of operations.

While the Laclede Group currently anticipates that the acquisition will be accretive to the Gas Utility segment's net economic earnings in fiscal year 2014 and thereafter, this expectation is based on preliminary estimates which may materially change. Laclede Gas may encounter additional transaction and integration-related costs, may fail to realize all of the anticipated benefits of the acquisition or be subject to other factors that affect those preliminary estimates.

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The process of integrating the operations of MGE could cause an interruption of, or loss of momentum in, the activities of one or more of those businesses and the possible loss of key personnel. The diversion of management's attention and any delays or difficulties encountered in connection with the transaction and the integration of the companies' operations could have an adverse effect on the business, results of operations, financial condition or prospects of the combined company after the acquisition is ultimately consummated.

The Utility expects to incur costs associated with combining the operations of the companies, as well as transaction fees and other costs related to the transaction. The combined company also will incur integration costs in connection with the acquisition and management is in the early stages of assessing the magnitude of these costs and additional unanticipated costs may be incurred in the integration of the businesses.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On May 10, 2013, the Board of Directors of Laclede Gas approved the sale of 5 shares of Laclede Gas common stock to Laclede Group. The proceeds from the sale, totaling \$0.2 million, were used for general corporate purposes. Exemption from registration was claimed under Section 4(a)(2) of the Securities Act of 1933, as amended.

Item 6. Exhibits

(a) See Exhibit Index

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Laclede Gas Company

Dated: July 30, 2013

By: /s/ Steven P. Rasche
Steven P. Rasche
Chief Financial Officer
(Authorized Signatory and Chief Financial Officer)

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INDEX TO EXHIBITS

Exhibit No.

- 12 - Ratio of Earnings to Fixed Charges.
- 31 - CEO and CFO Certifications under Exchange Act Rule 13a – 14(a).
- 32 - CEO and CFO Section 1350 Certifications.
- 101.INS - XBRL Instance Document. (1)
- 101.SCH - XBRL Taxonomy Extension Schema. (1)
- 101.CAL - XBRL Taxonomy Extension Calculation Linkbase. (1)
- 101.DEF - XBRL Taxonomy Definition Linkbase. (1)
- 101.LAB - XBRL Taxonomy Extension Labels Linkbase. (1)
- 101.PRE - XBRL Taxonomy Extension Presentation Linkbase. (1)

Attached as Exhibit 101 to this Quarterly Report are the following documents formatted in extensible business reporting language (XBRL): (i) Document and Entity Information; (ii) unaudited Statements of Income for the three and nine months ended June 30, 2013 and 2012; (iii) unaudited Statements of Comprehensive Income for the (1) three and nine months ended June 30, 2013 and 2012; (iv) unaudited Balance Sheets at June 30, 2013, September 30, 2012 and June 30, 2012; (v) unaudited Statements of Cash Flows for the nine months ended June 30, 2013 and 2012, and (vi) Notes to the unaudited Financial Statements. We also make available on our website the Interactive Data Files submitted as Exhibit 101 to this Quarterly Report.