LACLEDE GAS CO
Form 10-Q
April 30, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the Quarter Ended March 31, 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 [X] 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 [X] 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	[ ]	Accelerated filer	[ ]
Non-accelerated filer	[X]	Smaller reporting company	[ ]

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

As of April 26, 2013, there were 12,847 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.

Item 1. Financial Statements

LACLEDE GAS COMPANY
STATEMENTS OF INCOME
(UNAUDITED)

	Three Months Ended March 31,		Six Months Ended March 31,	
(Thousands)	2013	2012	2013	2012
Operating Revenues:				
Utility	$363,912	$298,623	$614,703	$549,525
Other	233	274	1,376	1,355
Total Operating Revenues	364,145	298,897	616,079	550,880
Operating Expenses:				
Utility				
Natural and propane gas	238,148	180,221	382,482	326,972
Other operation expenses	35,269	38,043	69,191	75,608
Maintenance	5,924	5,761	11,655	11,069
Depreciation and amortization	11,258	10,175	22,223	20,264
Taxes, other than income taxes	21,751	20,093	36,557	34,760
Total Utility Operating Expenses	312,350	254,293	522,108	468,673
Other	1,104	51	1,228	132
Total Operating Expenses	313,454	254,344	523,336	468,805
Operating Income	50,691	44,553	92,743	82,075
Other Income and (Income Deductions) – Net	988	1,378	2,076	3,317
Interest Charges:				
Interest on long-term debt	5,483	5,740	10,884	11,479
Other interest charges	515	596	1,039	1,215
Total Interest Charges	5,998	6,336	11,923	12,694
Income Before Income Taxes	45,681	39,595	82,896	72,698
Income Tax Expense	15,906	13,670	27,379	25,076
Net Income	$29,775	$25,925	$55,517	$47,622

See Notes to Financial Statements.

LACLEDE GAS COMPANY
STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended March 31,		Six Months Ended March 31,	
(Thousands)	2013	2012	2013	2012
Net Income	$29,775	$25,925	$55,517	$47,622
Other Comprehensive Income (Loss), Before Tax:				
Net gains (losses) on cash flow hedging derivative instruments:				
Net hedging gain arising during the period	147	83	203	133
Reclassification adjustment for (gains) losses included in net income	(38)	11	(85)	(3)
Net unrealized gains on cash flow hedging derivative instruments	109	94	118	130
Defined benefit pension and other postretirement plans:				
Net actuarial loss arising during the period	—	(2,366)	—	(2,366)
Amortization of actuarial loss included in net periodic pension and postretirement benefit cost	90	3,482	181	3,573
Net defined benefit pension and other postretirement plans	90	1,116	181	1,207
Other Comprehensive Income, Before Tax	199	1,210	299	1,337
Income Tax Expense Related to Items of Other Comprehensive Income	76	467	124	516
Other Comprehensive Income, Net of Tax	123	743	175	821
Comprehensive Income	$29,898	$26,668	$55,692	$48,443

See Notes to Financial Statements.

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LACLEDE GAS COMPANY
BALANCE SHEETS
(UNAUDITED)

(Thousands)	Mar. 31, 2013	Sept. 30, 2012	Mar. 31, 2012
ASSETS			
Utility Plant	$1,538,890	$1,497,419	$1,425,922
Less: Accumulated depreciation and amortization	478,971	478,120	468,209
Net Utility Plant	1,059,919	1,019,299	957,713
Other Property and Investments	48,134	46,358	51,021
Current Assets:			
Cash and cash equivalents	45,199	2,402	1,448
Accounts receivable:			
Utility	148,624	64,027	100,015
Non-utility	628	1,244	1,961
Associated companies	3,917	4,315	335
Other	7,470	17,288	16,630
Allowance for doubtful accounts	(8,729)	(7,601)	(8,655)
Delayed customer billings	19,663	—	13,464
Inventories:			
Natural gas stored underground at LIFO cost	29,899	89,852	55,461
Propane gas at FIFO cost	8,962	8,963	8,964
Materials and supplies at average cost	4,259	3,418	3,976
Derivative instrument assets	3,305	—	—
Unamortized purchased gas adjustments	11,039	40,674	11,241
Deferred income taxes	2,309	—	—
Prepayments and other	6,982	9,011	6,579
Total Current Assets	283,527	233,593	211,419
Deferred Charges:			
Regulatory assets	424,707	456,047	457,749
Other	5,832	4,855	5,320
Total Deferred Charges	430,539	460,902	463,069
Total Assets	$1,822,119	$1,760,152	$1,683,222

LACLEDE GAS COMPANY
BALANCE SHEETS (Continued)
(UNAUDITED)

(Thousands)	Mar. 31, 2013	Sept. 30, 2012	Mar. 31, 2012
CAPITALIZATION AND LIABILITIES			
Capitalization:			
Common stock and Paid-in capital (12,847, 12,804, and 11,746 shares issued, respectively)	$260,618	$257,415	$214,661
Retained earnings	272,341	236,014	252,430
Accumulated other comprehensive loss	(1,926)	(2,101)	(1,652)
Total Common Stock Equity	531,033	491,328	465,439
Long-term debt (less current portion)	439,434	339,416	339,386
Total Capitalization	970,467	830,744	804,825
Current Liabilities:			
Notes payable	—	40,100	—
Notes payable – associated companies	—	37,125	107,540
Accounts payable	52,015	38,391	39,939
Accounts payable – associated companies	5,754	2,576	2,672
Advance customer billings	—	25,146	—
Current portion of long-term debt	—	25,000	25,000
Wages and compensation accrued	16,175	13,908	13,873
Dividends payable	9,631	9,354	9,328
Customer deposits	7,706	8,565	9,459
Interest accrued	5,948	8,590	8,789
Taxes accrued	46,419	13,822	28,859
Deferred income taxes	—	10,146	4,848
Other	5,987	10,068	12,505
Total Current Liabilities	149,635	242,791	262,812
Deferred Credits and Other Liabilities:			
Deferred income taxes	348,170	355,458	335,138
Unamortized investment tax credits	3,006	3,113	3,219
Pension and postretirement benefit costs	191,778	196,558	163,940
Asset retirement obligations	41,266	40,126	28,304
Regulatory liabilities	83,026	56,319	53,267
Other	34,771	35,043	31,717
Total Deferred Credits and Other Liabilities	702,017	686,617	615,585
Commitments and Contingencies (Note 8)			
Total Capitalization and Liabilities	$1,822,119	$1,760,152	$1,683,222

See Notes to Financial Statements.

LACLEDE GAS COMPANY
STATEMENTS OF CASH FLOWS
(UNAUDITED)

(Thousands)	Six Months Ended March 31, 2013	2012
Operating Activities:		
Net Income	$55,517	$47,622
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	22,234	20,287
Deferred income taxes and investment tax credits	(10,687)	5,808
Other – net	80	(1,480)
Changes in assets and liabilities:		
Accounts receivable – net	(72,638)	(40,457)
Unamortized purchased gas adjustments	29,635	14,478
Deferred purchased gas costs	43,827	(30,160)
Accounts payable	21,454	(7,784)
Delayed customer billings - net	(44,809)	(28,694)
Taxes accrued	32,358	18,323
Natural gas stored underground	59,953	59,709
Other assets and liabilities	(9,949)	(7,153)
Net cash provided by operating activities	126,975	50,499
Investing Activities:		
Capital expenditures	(62,615)	(40,517)
Other investments	(943)	(1,294)
Net cash used in investing activities	(63,558)	(41,811)
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	170,468
Repayment of borrowings from Laclede Group	(117,370)	(115,808)
Changes in book overdrafts	(1,262)	357
Dividends paid	(18,917)	(18,409)
Issuance of common stock to Laclede Group	1,687	1,093
Excess tax benefits from stock-based compensation	550	163
Other	(453)	(27)
Net cash used in financing activities	(20,620)	(8,163)
Net Increase in Cash and Cash Equivalents	42,797	525
Cash and Cash Equivalents at Beginning of Period	2,402	923
Cash and Cash Equivalents at End of Period	$45,199	$1,448
Supplemental Disclosure of Cash Paid (Refunded) During the Period for:		
Interest	$14,404	$12,621
Income taxes	471	(3,759)

See Notes to Financial Statements.

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 six months ended March 31, 2013, sales of natural gas from Laclede Gas to LER were $10.4 million, but were negligible for the same period last year. Sales of natural gas from LER to Laclede Gas during the six months ended March 31, 2013 and 2012 were $15.0 million and $8.5 million, respectively. Propane transportation services provided by Laclede Pipeline Company to Laclede Gas during both the six months ended March 31, 2013 and 2012 totaled $0.5 million.

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 $107.5 million at September 30, 2012 and March 31, 2012, respectively. The interest rate on these borrowings was 0.2% at September 30, 2012 and 0.3% at March 31, 2012. There was no outstanding balance at March 31, 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 March 31, 2013 and 2012, for the Utility, were $33.3 million and $13.0 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 March 31, 2013 and 2012 were $17.2 million and $15.5 million, respectively. Amounts recorded in Utility Operating Revenues for the six months ended March 31, 2013 and 2012 were $27.5 million and $25.7 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.

The amounts of compensation cost allocated to the Utility for share-based compensation arrangements for the quarters and six months ended March 31, 2013 and 2012 are presented below:

	Three Months Ended March 31,		Six Months Ended March 31,	
(Thousands)	2013	2012	2013	2012
Total equity compensation cost	$974	$582	$1,506	$1,149
Compensation cost capitalized	(356)	(221)	(539)	(359)
Compensation cost recognized in net income	618	361	967	790
Income tax benefit recognized in net income	(235)	(140)	(370)	(305)
Compensation cost recognized in net income, net of income tax	$383	$221	$597	$485

As of March 31, 2013, there was $6.0 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 2.2 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.

2. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS

Pension Plans

Laclede Gas has non-contributory, defined benefit, trusteed 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 March 31, 2013 and 2012 were $4.2 million and $7.6 million, respectively, including amounts charged to construction. Pension costs for the six months ended March 31, 2013 and 2012 were $8.4 million and $11.8 million, respectively, including amounts charged to construction.

The net periodic pension costs include the following components:

	Three Months Ended March 31,		Six Months Ended March 31,	
(Thousands)	2013	2012	2013	2012
Service cost – benefits earned during the period	$2,311	$2,301	$4,622	$4,613
Interest cost on projected benefit obligation	4,066	4,840	8,132	9,711
Expected return on plan assets	(4,741)	(4,899)	(9,482)	(9,798)
Amortization of prior service cost	136	148	272	296
Amortization of actuarial loss	2,839	2,259	5,678	4,536
Loss on lump-sum settlement	—	3,407	—	3,407
Sub-total	4,611	8,056	9,222	12,765
Regulatory adjustment	(433)	(484)	(867)	(967)
Net pension cost	$4,178	$7,572	$8,355	$11,798

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. There were no lump-sum payments recognized as settlements during the six months ended March 31, 2013. Lump-sum payments recognized as settlements were $6.4 million during the six months ended March 31, 2012.

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 March 31, 2013 were $8.9 million to the qualified trusts and approximately $0.3 million to the non-qualified plans. Contributions to the pension plans for the remaining six months of fiscal 2013 are anticipated to be at least $14.5 million to the qualified trusts and $0.8 million to the non-qualified plans.

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 March 31, 2013 and 2012 were $2.4 million, including amounts charged to construction. Postretirement benefit costs for both the six months ended March 31, 2013 and 2012 were $4.8 million, including amounts charged to construction.

Net periodic postretirement benefit costs consisted of the following components:

	Three Months Ended March 31,		Six Months Ended March 31,	
(Thousands)	2013	2012	2013	2012
Service cost-benefits earned during the period	$2,534	$2,015	$5,067	$4,030
Interest cost on accumulated postretirement benefit obligation	1,279	1,380	2,558	2,760
Expected return on plan assets	(1,081)	(991)	(2,162)	(1,982)
Amortization of transition obligation	23	34	46	68
Amortization of prior service cost (credit)	1	(518)	2	(1,036)
Amortization of actuarial loss	1,325	1,065	2,650	2,130
Sub-total	4,081	2,985	8,161	5,970
Regulatory adjustment	(1,699)	(604)	(3,398)	(1,208)
Net postretirement benefit cost	$2,382	$2,381	$4,763	$4,762

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 March 31, 2013 were $4.1 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 six months of fiscal year 2013 are anticipated to be $12.2 million to the qualified trusts and $0.4 million paid directly to participants from Laclede Gas' funds.

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 March 31, 2013					
Cash and cash equivalents	$45,199	$45,199	$45,175	$24	$—
Short-term debt	—	—	—	—	—
Long-term debt, including current portion	439,434	514,129	—	514,129	—
As of September 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 March 31, 2012					
Cash and cash equivalents	$1,448	$1,448	$1,432	$16	$—
Short-term debt	107,540	107,540	—	107,540	—
Long-term debt, including current portion	364,386	432,098	—	432,098	—

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.

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 March 31, 2013					
Assets					
U. S. Stock/Bond Mutual Funds	$13,922	$—	$—	$—	$13,922
NYMEX natural gas contracts	10,862	—	—	(7,687)	3,175
NYMEX gasoline and heating oil contracts	322	—	—	(192)	130
Total	$25,106	$—	$—	$(7,879)	$17,227
Liabilities					
NYMEX natural gas contracts	$339	$—	$—	$(339)	$—
As of September 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 March 31, 2012					
Assets					
U. S. Stock/Bond Mutual Funds	$17,907	$—	$—	$—	$17,907
NYMEX natural gas contracts	709	—	—	(709)	—
NYMEX gasoline and heating oil contracts	81	—	—	(81)	—
Total	$18,697	$—	$—	$(790)	$17,907
Liabilities					
NYMEX natural gas contracts	$36,437	$—	$—	$(36,437)	$—

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 March 31, 2013, Laclede Gas held 0.5 million gallons of gasoline futures contracts at an average price of $2.30 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 March 31, 2013 were as follows:

	MMBtu (millions)	Avg. Price Per MMBtu
Open long futures positions		
Fiscal 2013	7.58	$3.40
Fiscal 2014	4.87	3.97

At March 31, 2013, Laclede Gas also had 14.2 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 March 31, 2013, it is expected that approximately $0.3 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.

The Effect of Derivative Instruments on the Statements of Income and Statements of Comprehensive Income

(Thousands)	Location of Gain (Loss) Recorded in Income	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012	Six Months Ended March 31, 2013	Six Months Ended March 31, 2012
Derivatives in Cash Flow Hedging Relationships					
NYMEX gasoline and heating oil contracts:					
Effective portion of gain recognized in OCI on derivatives		$147	$83	$203	$133
Effective portion of gain (loss) reclassified from AOCI to income	Utility – Other Operation Expenses	38	(11)	85	3
Ineffective portion of (loss) gain on derivatives recognized in income	Utility – Other Operation Expenses	(31)	28	(132)	34
Derivatives Not Designated as Hedging Instruments *					
NYMEX gasoline and heating oil contracts:					
Gain recognized in income on derivative	Other Income and (Income Deductions) – Net	$13	$12	$46	$13

* 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.

Fair Value of Derivative Instruments in the Balance Sheet at March 31, 2013

	Asset Derivatives			Liability Derivatives		
(Thousands)	Balance Sheet Location	Fair Value	*	Balance Sheet Location	Fair Value	*
Derivatives designated as hedging instruments						
NYMEX gasoline and heating oil contracts	Derivative Instrument Assets	$312		Derivative Instrument Assets	$—	
Derivatives not designated as hedging instruments						
NYMEX natural gas contracts	Derivative Instrument Assets	10,862		Derivative Instrument Assets	339	
NYMEX gasoline and heating oil contracts	Derivative Instrument Assets	10		Derivative Instrument Assets	—	
Sub-total		10,872			339	
Total derivatives		$11,184			$339	

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

	Asset Derivatives			Liability Derivatives		
(Thousands)	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 March 31, 2012

	Asset Derivatives			Liability Derivatives		
(Thousands)	Balance Sheet Location	Fair Value	*	Balance Sheet Location	Fair Value	*
Derivatives designated as hedging instruments						
NYMEX gasoline and heating oil contracts	Accounts Receivable - Other	$72		Accounts Receivable - Other	$—	
Derivatives not designated as hedging instruments						
NYMEX natural gas contracts	Accounts Receivable - Other	709		Accounts Receivable - Other	36,437	
NYMEX gasoline and heating oil contracts	Accounts Receivable - Other	9		Accounts Receivable - Other	—	
Sub-total		718			36,437	
Total derivatives		$790			$36,437	

* 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.

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

(Thousands)	Mar. 31, 2013	Sept. 30, 2012	Mar. 31, 2012
Fair value of asset derivatives presented above	$11,184	$7,682	$790
Fair value of cash margin receivables offset with derivatives	—	1,964	35,647
Netting of assets and liabilities with the same counterparty	(7,879)	(9,646)	(36,437)
Derivative instrument assets, per Balance Sheets	$3,305	$—	$—
Fair value of liability derivatives presented above	$339	$9,563	$36,437
Fair value of cash margin payables offset with derivatives	7,540	83	—
Netting of assets and liabilities with the same counterparty	(7,879)	(9,646)	(36,437)
Derivative instrument liabilities, per Balance Sheets	$—	$—	$—

Additionally, at September 30, 2012 and March 31, 2012, the Utility had $8.0 million and $8.2 million respectively in cash margin receivables not offset with derivatives, that are presented in Accounts Receivable - Other. There was no such amount at March 31, 2013.

6. OTHER INCOME AND (INCOME DEDUCTIONS) – NET

	Three Months Ended March 31,		Six Months Ended March 31,	
(Thousands)	2013	2012	2013	2012
Interest income	$240	$304	$631	$641
Net investment gain	832	1,173	771	2,214
Other income	5	11	73	11
Other income deductions	(89)	(110)	601	451
Other Income and (Income Deductions) – Net	$988	$1,378	$2,076	$3,317

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 impact of costs related to unique acquisition, divestiture, and restructuring activities.

(Thousands)	Gas Utility	Other	Adjustments & Eliminations	Total
Three Months Ended March 31, 2013				
Operating revenues	$363,912	$233	$—	$364,145
Net Economic Earnings	30,197	207	—	30,404
Total assets	1,821,372	747	—	1,822,119
Six Months Ended March 31, 2013				
Operating revenues	$614,703	$1,376	$—	$616,079
Net Economic Earnings	55,538	667	—	56,205
Total assets	1,821,372	747	—	1,822,119
Three Months Ended March 31, 2012				
Operating revenues	$298,623	$274	$—	$298,897
Net Economic Earnings	25,772	136	—	25,908
Total assets	1,680,948	2,274	—	1,683,222
Six Months Ended March 31, 2012				
Operating revenues	$549,525	$1,355	$—	$550,880
Net Economic Earnings	46,851	751	—	47,602
Total assets	1,680,948	2,274	—	1,683,222

Reconciliation of Net Economic Earnings to Net Income

	Three Months Ended March 31,		Six Months Ended March 31,	
(Thousands)	2013	2012	2013	2012
Total Net Economic Earnings above	$30,404	$25,908	$56,205	$47,602
Add: Unrealized (loss) gain on energy-related derivative contracts, net of tax	(32)	17	(91)	20
Add: Acquisition, divestiture, and restructuring costs, net of tax	(597)	—	(597)	—
Net Income	$29,775	$25,925	$55,517	$47,622

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 March 31, 2013 are estimated at approximately $195 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 March 31, 2013, the Utility was contractually committed to costs of approximately $1.5 million related to this project, with additional expenditures to be incurred throughout the project's life.

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.

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. 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. Laclede Gas is currently in discussions with the MoPSC Staff and other parties to resolve these matters.

In connection with its review of these affiliate transactions, Laclede Gas objected, on the grounds of relevance, to MoPSC Staff data requests seeking to obtain from LER certain of LER's proprietary documents unrelated to Laclede Gas' purchases from LER. 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. These Orders were later reversed by the Cole County Circuit Court, but ultimately 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 relating to the information-related requirements of the 2001 Order. As a result, additional LER documentation may need to be shared with the MoPSC staff. In addition, certain related complaints filed by the MoPSC Staff on October 6, 2010 and a counterclaim by Laclede Gas against Staff are still pending before the Commission. 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. Laclede Gas is currently in discussions with the MoPSC Staff and other parties to resolve these matters.

On June 29, 2010, the Office of Federal Contract Compliance Programs issued a Notice of Violations to Laclede Gas alleging lapses in certain employment selection procedures during a two-year period ending in February 2006. The Utility believes that the allegations lack merit and is vigorously defending its position. Management, after discussion with counsel, believes that the final outcome of these matters will not have a material effect on the financial position and results of operations, or cash flows of the Utility.

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 January 31, 2013, the bankruptcy trustee received approval from the court to make certain additional distributions to customers. As a result of this action, Laclede Gas received partial distributions totaling $0.7 million in April 2013. As of April 29, 2013, the Utility had $0.9 million on deposit with MF Global that remains unavailable to the Utility pending final resolution by the bankruptcy trustee. Regarding the funds that continue to remain outstanding after this partial distribution, management is currently unable to predict when, or to what extent, these funds will be returned. Management does not believe that the Utility's exposure is material.

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.

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 Company filed an application with the MoPSC for approval to acquire the assets of MGE from SUG, and the Utility continues to work with the MoPSC staff to respond to their requests for additional information supporting the Utility's pending application. The Transaction is targeted to close before the end of fiscal year 2013, subject to customary closing conditions, including regulatory approvals from the MoPSC. 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 $1.020 billion bridge facility with Wells Fargo Bank, National Association. The bridge facility was syndicated to a group of nine financial institutions in January 2013. The Utility anticipates permanent financing to be a combination of long-term debt and equity.

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 quarter ended March 31, 2013, Laclede Gas recorded $0.6 million, net of tax, of third-party expenses associated with the Transaction.

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 expression 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 35 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.

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 neutral to Laclede Gas' earnings in the first full year following closing and accretive thereafter. The transaction is expected to be immediately accretive to cash flow.

Completion of the pending acquisition is subject to customary closing conditions, including regulatory approvals on filings from the Missouri Public Service Commission (MoPSC or Commission). 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 Form 8-K filed on January 14, 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.

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 MoPSC. The settlement of the Utility’s rate case in 2010 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 29 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 30 for additional information.

EARNINGS

Quarter Ended March 31, 2013

Laclede Gas' net income totaled $29.8 million for the quarter ended March 31, 2013, an increase of $3.9 million compared with the quarter ended March 31, 2012. The increase was primarily due to the following factors, quantified on a pre-tax basis:

- increased sales margins reflecting colder weather this year totaling $4.4 million;
- decreases in employee benefit expenses totaling $2.8 million; and
- higher Infrastructure System Replacement Surcharge (ISRS) revenues totaling $1.1 million.

These benefits were partially offset by:

- higher depreciation and amortization expenses totaling $1.1 million; and
- acquisition costs, totaling $1.0 million, associated with Utility's pending transaction to acquire MGE.

Utility Operating Revenues

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 net revenues and net income.

Utility Operating Revenues for the quarter ended March 31, 2013 were $363.9 million, or $65.3 million more than the same period last year. Temperatures experienced in the Utility’s service area during the quarter ended March 31, 2013, were 45.7% colder than the same quarter last year and 3.5% colder than normal. Last year's temperatures were the warmest on record. Total system therms sold and transported were 413.0 million for the quarter ended March 31, 2013, compared with 305.2 million for the same period last year. Total off-system therms sold and transported were 128.9 million for the quarter ended March 31, 2013, compared with 130.0 million for the same period last year. The increase in Utility Operating Revenues was primarily attributable to the following factors:

(Millions)		
Higher system sales volumes and other variations	$60.2	
Higher prices charged for off-system sales	13.7	
Lower wholesale gas costs passed on to Utility customers (subject to prudence review by the MoPSC)	(9.4	)
Higher ISRS revenues	1.1	
Lower off-system sales volumes (reflecting less favorable market conditions as described in greater detail in the Results of Operations - Overview)	(0.3	)
Total Variation	$65.3	

Utility Operating Expenses

Utility Operating Expenses for the quarter ended March 31, 2013 increased $58.1 million from the same quarter last year. Natural and propane gas expense increased $57.9 million, or 32.1%, from last year’s level, primarily attributable to increased system volumes purchased for sendout and higher off-system gas expenses, partially offset by lower rates charged by suppliers. Other operation and maintenance expenses decreased $2.6 million, or 6.0%, primarily due to lower employee benefit expenses, a lower provision for uncollectible accounts, a higher rate of overheads capitalized, and reduced customer accounts expenses, partially offset by increased charges for outside services. Depreciation and amortization expense increased $1.1 million primarily due to additional depreciable property. Taxes, other than income taxes, increased $1.7 million, or 8.3%, primarily due to increased gross receipts taxes (attributable to increased system sales revenues).

Other Operating Expenses

Other Operating Expenses for the quarter ended March 31, 2013 increased $1.1 million compared to the same quarter last year. The increase 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 $0.4 million primarily due to lower net investment gains.

Interest Charges

Interest charges during the quarter ended March 31, 2013 decreased $0.3 million from the same period last year primarily due to lower interest on long-term debt, reflecting the net effect of the October 2012 maturity of $25 million of 6 1/2% first mortgage bonds and 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 quarters ended March 31, 2013 and 2012. Average short-term borrowings were $50.9 million for the quarter ended March 31, 2013, compared with $153.2 million for the quarter ended March 31, 2012.

Income Taxes

The $2.2 million increase in income taxes was primarily due to higher pre-tax income.

Six Months Ended March 31, 2013

Laclede Gas' net income for the six months ended March 31, 2013 was $55.5 million, compared with net income of $47.6 million for the six months ended March 31, 2012. The $7.9 million increase in net income was primarily attributable to the following factors, quantified on a pre-tax basis:

- increased sales margins reflecting colder weather this year totaling $5.4 million;
- decreases in employee benefit expenses totaling $3.0 million;
- a lower provision for uncollectible accounts totaling $2.9 million; and
- higher ISRS revenues totaling $2.4 million.

These benefits were partially offset by:

- higher depreciation and amortization expenses totaling $2.0 million; and
- acquisition costs, totaling $1.0 million, associated with Utility's pending transaction to acquire MGE.

Utility Operating Revenues

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 net revenues and net income.

Utility Operating Revenues for the six months ended March 31, 2013 were $614.7 million, or $65.2 million more than the same period last year. Temperatures experienced in the Utility’s service area during the six months ended March 31, 2013, were 32.6% colder than the same period last year, but 1.6% warmer than normal. Last year's temperatures were the warmest on record. Total system therms sold and transported were 674.1 million for the six months ended March 31, 2013, compared with 543.7 million for the same period last year. Total off-system therms sold and transported were 211.2 million for the six months ended March 31, 2013, compared with 228.2 million for the same period last year. The increase in Utility Operating Revenues was primarily attributable to the following factors:

(Millions)		
Higher system sales volumes and other variations	$74.3	
Lower wholesale gas costs passed on to Utility customers (subject to prudence review by the MoPSC)	(21.0	)

Higher prices charged for off-system sales	14.5
Lower off-system sales volumes (reflecting less favorable market conditions as described in greater detail in the Results of Operations - Overview)	(5.0)
Higher ISRS revenues	2.4
Total Variation	$65.2

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Utility Operating Expenses

Utility Operating Expenses for the six months ended March 31, 2013 increased $53.4 million from the same period last year. Natural and propane gas expense increased $55.5 million, or 17.0%, 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 $5.8 million, or 6.7%, primarily due to lower employee benefit expenses, a lower provision for uncollectible accounts, a higher rate of overheads capitalized, and reduced customer accounts expenses, partially offset by increased charges for outside services. Depreciation and amortization expense increased $2.0 million primarily due to additional depreciable property. Taxes, other than income taxes, increased $1.8 million, or 5.2%, primarily due to increased gross receipts taxes (attributable to increased system sales revenues).

Other Operating Expenses

Other Operating Expenses for the six months ended March 31, 2013 increased $1.1 million compared to the same period last year. The increase 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 $1.2 million primarily due to lower net investment gains.

Interest Charges

Interest charges during the six months ended March 31, 2013 decreased $0.8 million from the same period last year primarily due 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 six months ended March 31, 2013 and 2012. Average short-term borrowings were $108.2 million for the six months ended March 31, 2013, compared with $148.2 million for the six months ended March 31, 2012.

Income Taxes

The $2.3 million increase in income taxes was primarily due to higher pre-tax income, partially offset by various property-related deductions.

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. 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. Laclede Gas is currently in discussions with the MoPSC Staff and other parties to resolve these matters.

In connection with its review of these affiliate transactions, Laclede Gas objected, on the grounds of relevance, to MoPSC Staff data requests seeking to obtain from LER certain of LER's proprietary documents unrelated to Laclede Gas' purchases from LER. 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. These Orders were later reversed by the Cole County Circuit Court, but ultimately 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 relating to the information-related requirements of the 2001 Order. As a result, additional LER documentation may need to be shared with the MoPSC staff. In addition, certain related complaints filed by the MoPSC Staff on October 6, 2010 and a counterclaim by Laclede Gas against Staff are still pending before the Commission. Laclede Gas is currently in discussions with the MoPSC Staff and other parties to resolve these matters. 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. Laclede Gas is currently in discussions with the MoPSC Staff and other parties to resolve these matters.

On December 21, 2012, Laclede Gas filed tariff sheets in a new general rate case proceeding that are designed to increase the Utility's total revenues by $43.6 million, net of current annualized ISRS revenues. On December 27, 2012, the MoPSC suspended implementation of the Utility's proposed rates and set the case for hearing in August 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.

Also 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 issued a Notice of Violations to Laclede Gas alleging lapses in certain employment selection procedures during a two-year period ending in February 2006. The Utility believes that the allegations lack merit and is vigorously defending its position. Management, after discussion with counsel, believes that the final outcome of these matters will not have a material effect on the financial position and results of operations, or cash flows of the Utility.

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 six months ended March 31, 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 $127.0 million for the six months ended March 31, 2013, compared with $50.5 million for the six months ended March 31, 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 six months ended March 31, 2013 was $63.6 million, compared with $41.8 million for the six months ended March 31, 2012. The variation primarily reflects additional capital expenditures this year for distribution plant and information technology investments.

Net cash used in financing activities was $20.6 million for the six months ended March 31, 2013, compared with $8.2 million for the six months ended March 31, 2012. The variation primarily reflects the effect of increased repayments of short-term borrowings and the maturity of long-term debt this year, partially offset by the issuance of additional long-term debt.

LIQUIDITY AND CAPITAL RESOURCES

Cash and Cash Equivalents

Laclede Gas Company had temporary cash investments totaling $35.5 million at March 31, 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 $35.5 million during the six months ended March 31, 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 March 31, 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 45% of total capitalization on March 31, 2013.

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 six months ended March 31, 2013, but there were no such borrowings outstanding as of March 31, 2013. Information about the Utility's short-term borrowings during the six months ended March 31, 2013 and as of March 31, 2013, is presented below:

	Commercial Paper Borrowings	Borrowings from Laclede Group	Total Short-Term Borrowings
Six Months Ended March 31, 2013			
Weighted average borrowings outstanding	$61.0 million	$47.2 million	$108.2 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 - $174.0 million
As of March 31, 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 six months ended March 31, 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 $1.1 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 has 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, which expires May 28, 2013. The entire amount of this shelf registration remains available to Laclede Gas at this time.

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 six months ended March 31, 2013, pursuant to this authority, the Utility sold 43 shares of its common stock to Laclede Group for $1.7 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 April 26, 2013, $371.4 million remains available under this authorization. As part of its MoPSC application for approval of the acquisition of MGE, Laclede Gas requested authority to issue debt and equity securities of up to $975 million. This request is pending approval by the Commission. 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 March 31, 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. Permanent financing for the acquisition is anticipated to be a combination of long-term debt of Laclede Gas and/or Laclede Group and Laclede Group equity securities. Laclede Group has entered into interest rate hedges for approximately 69% of the expected 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 $62.6 million for the six months ended March 31, 2013, compared with $40.5 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.

Capitalization at March 31, 2013 consisted of 54.7% common stock equity and 45.3% 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 March 31, 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 March 31, 2012 is presented to facilitate comparison of these items with the corresponding interim period of the preceding fiscal year.

CONTRACTUAL OBLIGATIONS

As of March 31, 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	466.1	12.3	49.0	49.0	355.8
Capital Leases (a)	0.2	0.1	0.1	—	—
Operating Leases (a)	9.0	2.3	6.0	0.7	—
Purchase Obligations – Natural Gas (b)	194.8	103.7	76.8	13.7	0.6
Purchase Obligations – Other (c)	80.1	19.2	22.0	18.3	20.6
Total (d) (e)	$1,190.2	$137.6	$153.9	$81.7	$817.0

(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.

(b) 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 March 31, 2013 NYMEX futures prices. Laclede 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.

(d) 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 $6.9 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 expects to make contributions to its qualified, trusteed pension plans totaling $14.5 million during the remaining six months of fiscal year 2013. Laclede Gas anticipates a $0.8 million contribution relative to its non-qualified pension plans during the remaining six months of fiscal year 2013. With regard to the postretirement benefits, the Utility anticipates it will contribute $12.2 million to the qualified trusts and $0.4 million directly to participants from Laclede Gas' funds during the remaining six 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.

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 six months ended March 31, 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 $1.1 million on an annual basis. Portions of such increases may be offset through the application of PGA carrying costs. At March 31, 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.

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 33 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 second 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.

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 29 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 a newly formed wholly owned subsidiary, Plaza Missouri Acquisition, Inc. (Plaza Missouri), entered into a purchase and sale agreement to acquire from SUG substantially all of the assets and liabilities of MGE. Subsequently, on January 11, 2013, Laclede Group and Plaza Missouri, with the consent of SUG, entered into an agreement with Laclede Gas to assign the acquisition agreement to Laclede Gas. In order to complete the acquisition, the Utility must obtain approvals from the Missouri Public Service Commission. This governmental agency could seek to block or challenge the acquisition or could impose restrictions it deems necessary or desirable in the public interest as a condition to approving the acquisition. There can be no assurance as to the receipt or timing of these approvals. The acquisition agreement requires the Utility to use its reasonable best efforts to obtain these approvals, which may include conditions or restrictions that could have an adverse effect on the anticipated benefits of the acquisition or on the Utility's business, financial condition or results of operations. In addition, if these approvals are not received, or they are not received on terms that satisfy the conditions set forth in the acquisition agreement, then the Utility will not be obligated to complete the transaction.

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.

The 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 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 $1.020 billion 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 in place at the time of the closing of the acquisition. The permanent financing is anticipated to include a mix of long-term debt of Laclede Group and/or Laclede Gas and common equity of Laclede Group, funding from which is expected to be provided to Laclede Gas through sale of additional shares of Laclede Gas stock to Laclede Group. 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 Utility currently anticipates that the acquisition will be neutral to the Utility's earnings in the first full year following its completion and accretive 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.

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 March 15, 2013, the Board of Directors of Laclede Gas approved the sale of 22 shares of Laclede Gas common stock to Laclede Group. The proceeds from the sale, totaling $0.9 million, were used to reduce short-term borrowings. 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

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: April 30, 2013	By: /s/ Steven P. Rasche Steven P. Rasche Chief Financial Officer (Authorized Signatory and Chief Financial Officer)

INDEX TO EXHIBITS

Exhibit No.

4.1	-	Thirty-First Supplemental Indenture dated as of March 15, 2013.
10.1	-	First Amendment to Loan Agreement, dated as of January 16, 2013, among Laclede Gas Company and the several banks parties thereto, including Wells Fargo Bank, National Association as administrative agent, filed as Exhibit 10.2 to Form 8-K filed January 18, 2013.
10.2	-	Assignment and Assumption Agreement dated January 11, 2013, filed as Exhibit 99.1 to Form 8-K filed January 14, 2013.
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)

(1) Furnished, not filed

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 six months ended March 31, 2013 and 2012; (iii) unaudited Statements of Comprehensive Income for the three and six months ended March 31, 2013 and 2012; (iv) unaudited Balance Sheets at March 31, 2013, September 30, 2012 and March 31, 2012; (v) unaudited Statements of Cash Flows for the six months ended March 31, 2013 and 2012, and (vi) Notes to the unaudited Financial Statements.

Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability. We also make available on our website the Interactive Data Files submitted as Exhibit 101 to this Quarterly Report.