

LACLEDE GROUP INC  
Form 10-K  
November 26, 2013

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

FORM 10-K

ANNUAL REPORT

For the Fiscal Year Ended September 30, 2013

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ANNUAL REPORT

For the Fiscal Year Ended September 30, 2013

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE ACT OF  
1934  
For the Fiscal Year Ended September 30, 2013

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

Commission File Number 1-16681

THE LACLEDE GROUP, INC.  
(Exact name of registrant as specified in its charter)

Missouri  
(State of Incorporation)

74-2976504  
(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)

Securities registered pursuant to Section 12(b) of the Act

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock \$1.00 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant:

is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. (  )

Indicate by check mark whether the registrant:

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

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

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

The aggregate market value of the voting stock held by non-affiliates of The Laclede Group, Inc. amounted to \$906,985,448 as of March 31, 2013.

As of November 21, 2013, there were 32,709,763 shares of the registrant's Common Stock, par value \$1.00 per share, outstanding.

Document Incorporated by Reference:

Portions of Proxy Statement dated December 18, 2013 — Part III

Index to Exhibits is found on page 102.

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Part I

FORWARD-LOOKING STATEMENTS

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

- weather conditions and catastrophic events, particularly severe weather in the natural gas producing areas of the country;
- volatility in gas prices, particularly sudden and sustained changes in natural gas prices, including the related impact on margin deposits associated with the use of natural gas derivative instruments;
- the impact of changes and volatility in natural gas prices on our competitive position in relation to suppliers of alternative heating sources, such as electricity;
- changes in gas supply and pipeline availability, including decisions by natural gas producers to reduce production or shut in producing natural gas wells, expiration of existing supply and transportation arrangements that are not replaced with contracts with similar terms and pricing, as well as other changes that impact supply for and access to the markets in which our subsidiaries transact business;
- 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;
- 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.

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.



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## Item 1. Business

## Overview

The Laclede Group, Inc. (Laclede Group or the Company) is a public utility holding company formed through a corporate restructuring that became effective October 1, 2001. The Company has two key business segments: Gas Utility and Gas Marketing. The Gas Utility segment includes the regulated operations of Laclede Gas Company (the Utility), Laclede Group's largest subsidiary. Laclede Gas Company is a public utility engaged in the retail distribution and sale of natural gas, and is the largest natural gas distribution utility in Missouri, serving more than 1.13 million residential, commercial and industrial customers. The Utility serves St. Louis and eastern Missouri through Laclede Gas and serves Kansas City and western Missouri through Missouri Gas Energy (MGE), whose assets were acquired by the Utility on September 1, 2013. The Gas Marketing segment includes Laclede Energy Resources, Inc. (LER), a wholly owned subsidiary engaged in the marketing of natural gas and related activities on a non-regulated basis. As of September 30, 2013, Laclede Group had 2,326 employees, including 49 part-time employees.

Consolidated operating revenues contributed by each segment for the last three fiscal years are presented below. For more detailed financial information regarding the segments, see Note 15 of the Notes to Consolidated Financial Statements.

(Thousands)	2013	2012	2011
Gas Utility	\$847,224	\$763,447	\$913,190
Gas Marketing	165,146	358,145	669,375
Other	4,649	3,883	20,742
Total Operating Revenues	\$1,017,019	\$1,125,475	\$1,603,307

Laclede Group's common stock is listed on The New York Stock Exchange and trades under the ticker symbol "LG."

The following table reflects shares issued during the periods indicated:

	2013	2012
Common Stock Issuance	10,005,000	—
DRIP	44,074	46,107
Equity Incentive Plan	108,331	62,590
Total Shares Issued	10,157,405	108,697

Shares were issued during 2013 to effect the acquisition of the MGE assets as well as historically consistent levels for Laclede Group's Dividend Reinvestment and Stock Purchase Plan (DRIP) and its Equity Incentive Plan.

The information we file or furnish to the Securities and Exchange Commission (SEC), including annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K and their amendments, are available on our website, [www.TheLacledeGroup.com](http://www.TheLacledeGroup.com), in the Investor Services section under SEC Filings as soon as reasonably practical after the information is filed or furnished to the SEC.

## Gas Utility

## NATURAL GAS SUPPLY

The Utility focuses its gas supply portfolio around a number of large natural gas suppliers with equity ownership or control of assets strategically situated to complement its regionally diverse firm transportation arrangements.

The Utility's fundamental gas supply strategy is to meet the two-fold objective of 1) ensuring that the gas supplies it acquires are dependable and will be delivered when needed and 2) insofar as is compatible with that dependability, purchasing gas that is economically priced. In structuring its natural gas supply portfolio, Laclede Gas continues to focus on natural gas assets that are strategically positioned to meet the Utility's primary objectives. Laclede Gas utilizes both Mid-Continent and Gulf Coast gas sources to provide a level of supply diversity that facilitates the optimization of pricing differentials as well as protecting against the potential of regional supply disruptions. MGE utilizes both Mid-Continent and Rocky Mountain gas sources to provide a level of supply diversity that accesses low cost supplies while providing a natural gas price arbitrage.



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In fiscal year 2013, the Utility purchased natural gas from 35 different suppliers to meet current gas sales and storage injection requirements. The Utility entered into firm agreements with suppliers including major producers and marketers providing flexibility to meet the temperature sensitive needs of its customers. Natural gas purchased by the Laclede Gas for delivery to its service area through the Enable Mississippi River Transmission LLC (MRT) system totaled 55.0 billion cubic feet (Bcf). Laclede Gas also holds firm transportation on several other interstate pipeline systems that provide access to gas supplies upstream of MRT. In addition to deliveries from MRT, 8.6 Bcf of gas was purchased on MO Gas, 13.4 Bcf on the Southern Star Central Gas Pipeline, Inc. (Southern Star Central), 0.03 Bcf on the Panhandle Eastern Pipe Line Company system, and 0.1 BCF on the Postrock system. Some of the Utility's commercial and industrial customers purchased their own gas with the Utility transporting 17.0 Bcf to them through the Utility's distribution system.

The fiscal year 2013 peak day sendout of natural gas to Laclede Gas customers, including transportation customers, occurred on January 22, 2013, when the average temperature was 16 degrees Fahrenheit in St. Louis. On that day, Laclede Gas customers consumed 0.766 Bcf of natural gas. About 91% of this peak day demand was met with natural gas transported to St. Louis through the MRT, MO Gas, and Southern Star transportation systems, and the other 9% was met from Laclede Gas' on-system storage and peak shaving resources.

### UNDERGROUND NATURAL GAS STORAGE

The Utility has a contractual right to store 23.1 Bcf of gas in MRT's storage facility located in Unionville, Louisiana, 16.3 Bcf of gas storage in Southern Star Central system storage facilities located in Kansas and Oklahoma, and 1.4 Bcf of firm storage on Panhandle Eastern Pipe Line Company's system storage. MRT's tariffs allow injections into storage from May 16 through November 15 and require the withdrawal from storage of all but 2.2 Bcf from November 16 through May 15. Southern Star Central tariffs allow both injections and withdrawals into storage year round with ratchets that restrict the associated flows dependent upon the underlying inventory level per the contracts.

In addition, the Utility supplements flowing pipeline gas with natural gas withdrawn from its own underground storage field located in St. Louis and St. Charles Counties in Missouri. The field is designed to provide 0.3 Bcf of natural gas withdrawals on a peak day and annual withdrawals of approximately 4.0 Bcf of gas based on the inventory level that Laclede plans to maintain.

### REGULATORY MATTERS

For details on regulatory matters, see the Regulatory and Other Matters discussion in the Management's Discussion and Analysis of Financial Condition and Results of Operations, on page 36 of this Form 10-K.

### OTHER PERTINENT MATTERS

The Utility's business has monopoly characteristics in that it is the only distributor of natural gas within its franchised service areas. The principal competition are the local electric companies. Other competitors in the Utility's service areas include suppliers of fuel oil, coal, propane, natural gas pipelines which can directly connect to large volume customers, and district steam systems in the downtown areas of both St. Louis and Kansas City.

The Utility's residential, commercial, and small industrial markets represent approximately 85% of the Utility's operating revenue. Given the current level of natural gas supply and market conditions, the Utility believes that the relative comparison of natural gas equipment and operating costs with those of competitive fuels will not change significantly in the foreseeable future, and that these markets will continue to be supplied by natural gas. In new multi-family and commercial rental markets, the Utility's competitive exposure is presently limited to space and water heating applications. Certain alternative heating systems can be cost competitive in traditional markets.

Coal is price competitive as a fuel source for very large boiler plant loads, but environmental requirements for coal have shifted the economic advantage to natural gas. Oil and propane can be used to fuel boiler loads and certain direct-fired process applications, but these fuels require on-site storage, thus limiting their competitiveness. In certain cases, district steam has been competitive with gas for downtown St. Louis and Kansas City area heating users. The Utility offers gas transportation service to its large user industrial and commercial customers. The tariff approved for that type of service produces a margin similar to that which the Utility would have received under its regular sales rates.

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The Utility is subject to various environmental laws and regulations that, to date, have not materially affected the Company's financial position and results of operations. For a detailed discussion of environmental matters, see Note 16 of the Notes to Consolidated Financial Statements.

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Laclede Gas has labor agreements with Locals 884, 11-6 and 11-194 of the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied-Industrial and Service Workers International Union (Union), which represent approximately 67% of Laclede Gas' employees. The agreements with Locals 11-6 and 11-194 will expire at midnight on July 31, 2014. Laclede Gas and Local 884 have a labor agreement that expires on midnight on July 31, 2015.

MGE has labor agreements with Locals 12561, 14228 and 11-267 of the United Steelworkers (Union), which represents 26% of Missouri Gas Energy employees; Gasworkers Metal Trades Local 781 of the United Association of Journeymen and Apprentices of the Plumbing and Pipefitting Industry of the United States and Canada, A.F. of L. - C.I.O. (Union) which represents approximately 34% of Missouri Gas Energy employees; and Local 53 of the International Brotherhood of Electrical Workers (Union) which represents approximately 13% of Missouri Gas Energy employees. Missouri Gas Energy and Locals 12561, 14228, and 11-267, 781, and 53 have labor agreements that will expire at 11:59 p.m. on April 30, 2014.

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The business of the Utility is subject to seasonal fluctuations with the peak period occurring in the winter season.

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Revenues, therms sold and transported, and customers of the Utility for the last three fiscal years are as follows (before intersegment eliminations):

Gas Utility Operating Revenues			
(Thousands)	2013*	2012	2011
Residential	\$556,818	\$487,529	\$584,788
Commercial & Industrial	184,101	161,866	202,017
Interruptible	3,524	2,105	3,659
Transportation	15,293	14,094	14,426
Off-System and Capacity Release	90,188	92,477	100,225
Other	7,838	6,580	8,075
Total	\$857,762	\$764,651	\$913,190
Gas Utility Therms Sold and Transported			
(Thousands)	2013*	2012	2011
Residential	496,623	385,317	497,171
Commercial & Industrial	229,562	183,536	228,080
Interruptible	3,149	3,013	5,098
Transportation	160,411	146,117	155,067
System Therms Sold and Transported	889,745	717,983	885,416
Off-System	229,358	314,473	223,000
Total Therms Sold and Transported	1,119,103	1,032,456	1,108,416
Gas Utility Customers (End of Period)			
	2013*	2012	2011
Residential	1,027,556	588,061	584,926
Commercial & Industrial	99,960	39,741	39,995

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Interruptible	17	15	15
Transportation	1,003	140	141
Total Customers	1,128,536	627,957	625,077

\*Includes MGE for the month of September 2013, and for the end of the period.

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The Utility has franchises in nearly all of the 236 Missouri communities where it provides service with terms varying from five years to an indefinite duration. Generally, a franchise allows the Utility, among other things, to install pipes and construct other facilities in the community. Certain franchise agreements have expired, including Clayton (in 2008), St. Charles County (in 2013), North Kansas City (in 2013), Cameron (in 2013), and Riverside (in 2013) and since that time the Utility has continued to provide service in those communities without formal franchises. All of the franchises are free from unduly burdensome restrictions and are adequate for the conduct of the Utility's current public utility business in the State of Missouri.

Gas Marketing

LER is engaged in the marketing of natural gas and providing energy services to both on-system utility transportation customers and customers outside of the Utility's traditional service area. During fiscal year 2013, LER utilized 12 interstate pipelines and 93 suppliers to market natural gas to its customers primarily in the Midwest. LER served more than 205 retail customers and 100 wholesale customers. Through its retail operations, LER offers natural gas marketing services to large industrial customers, while its wholesale business consists of buying and selling natural gas to other marketers, producers, utilities, power generators, pipelines, and municipalities. Wholesale activities currently represent a large majority of LER's total business. LER also serves power plants that use natural gas to generate electricity.

In the course of its business, LER enters into agreements to purchase natural gas at a future date in order to lock up supply to cover future sales commitments to its customers. To secure access to the markets it serves, LER contracts for transportation capacity on pipelines. During fiscal year 2013, LER had several long-term transportation contracts that came up for renewal and was able to lower its overall transportation costs through renegotiation of contracts at lower rates. In addition, LER further reduced its costs by allowing certain transportation contracts to lapse. To provide additional operational flexibility, LER enters into park and loan transactions with pipeline companies, whereby it pays a fee to deliver natural gas to the pipeline that is redelivered to LER at a future date, at which time LER sells the natural gas to a third party. Furthermore, beginning in August 2013, LER contracted for storage capacity in northeastern Louisiana under a long-term agreement to meet the future needs of the growing gas-fired power generation market.

Historically, LER's business has been primarily comprised of physically settled sales of natural gas to its wholesale and retail customers, whereby LER purchased natural gas at one location and transported it on its pipeline capacity to a higher-priced location. In order to transport gas on pipelines, LER incurred fuel and commodity charges on each of the movements from one location to another. As a result of new pipeline infrastructure and an abundance of natural gas supply, regional price differences have narrowed and overall price volatility has been reduced. This reduction in regional price differentials allows LER to satisfy its commitments without incurring fuel costs to transport natural gas to a different location. As a result, LER cannot be certain that all of its wholesale purchase and sale transactions will settle physically, so many transactions entered into in fiscal year 2013 are designated as trading activities for financial reporting purposes. Results of operations from trading activities are reported on a net basis in Gas Marketing Operating Revenues. This presentation has no effect on operating income or net income.

LER's strategy is to leverage its market expertise and risk management skills to manage and optimize the value of its portfolio of commodity, transportation, park and loan, and storage contracts while controlling costs and acting on new marketplace opportunities. LER was profitable in fiscal year 2013, despite a challenging market.

Looking forward, market conditions continue to be challenging with low market volatility and historically small price differentials between geographic regions which drive transportation values and also seasonal spreads which drive

storage and park and loan values.

OTHER

Laclede Pipeline Company, a wholly owned subsidiary, operates a propane pipeline under Federal Energy Regulatory Commission (FERC) jurisdiction. This pipeline connects the propane storage and vaporization facilities of the Utility to third-party propane supply terminal facilities located in Illinois, which allows the Utility to receive propane that is vaporized to supplement its natural gas supply and meet peak demands on its distribution system. Laclede Pipeline Company also provides transportation services to third parties.

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Other also includes Laclede Group's subsidiaries that are engaged in, among other activities, oil production, real estate development, compression of natural gas, and financial investments in other enterprises. These operations are conducted through seven subsidiaries. The Other category also includes the Utility's non-regulated propane services business which involves providing propane-related services and storage to third parties and its affiliate, Laclede Pipeline Company. Beginning July 1, 2013, propane-related services are included within Gas Utility operations pursuant to the Utility's new rate case.

Item 1A. Risk Factors

Laclede Group's business and financial results are subject to a number of risks and uncertainties, including those set forth below. The risks described below are those the Company considers to be material. When considering any investment in Laclede Group securities, investors should carefully consider the following information, as well as information contained in the caption "Forward-Looking Statements," Item 7A, and other documents Laclede files with the SEC. This list is not exhaustive, and Laclede Group's management places no priority or likelihood based on the risk descriptions, order of presentation or grouping by subsidiary.

**RISKS AND UNCERTAINTIES THAT RELATE TO THE BUSINESS AND FINANCIAL RESULTS OF LACLEDE GROUP AND ITS SUBSIDIARIES**

As a holding company, Laclede Group depends on its operating subsidiaries to meet its financial obligations.

Laclede Group is a holding company with no significant assets other than the stock of its operating subsidiaries and cash investments. Laclede Group, and the Utility prior to Laclede Group's formation, have paid dividends continuously since 1946. However, Laclede Group relies exclusively on dividends from its subsidiaries, on intercompany loans from its non-utility subsidiaries, and on the repayments of principal and interest from intercompany loans made to its subsidiaries for its cash flows. Laclede Group's ability to pay dividends to its shareholders is dependent on the ability of its subsidiaries to generate sufficient net income and cash flows to pay upstream dividends and make loans or loan repayments.

A downgrade in Laclede Group's credit ratings may negatively affect its ability to access capital.

Currently, Laclede Group has investment grade credit ratings, which are subject to review and change by the rating agencies. Laclede Group has working capital lines of credit to meet the short-term liquidity needs of its subsidiaries. If the rating agencies lowered Laclede Group's credit rating, particularly below investment grade, it might significantly limit its ability to secure new or additional credit facilities and would increase its costs of borrowing. Laclede Group's ability to borrow under current or new credit facilities and costs of that borrowing have a direct impact on its subsidiaries' ability to execute their operating strategies. In the fourth quarter of 2013, Standard & Poor's and Fitch Ratings each lowered their ratings of Laclede Group by one notch to A- and BBB+, respectively. There are no implications of this downgrade on our corporate funding ability or our ability to access the capital markets, nor does this downgrade trigger any collateralization requirements under our corporate guarantees. There is no assurance that such credit ratings will be issued or remain in effect for any given period of time or that such ratings will not be lowered, suspended or withdrawn entirely by the rating agencies, if, in each rating agency's judgment, circumstances so warrant. For additional credit rating information, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the caption "Liquidity and Capital Resources."

Unexpected losses may adversely affect Laclede Group's financial condition and results of operations.

As with most businesses, there are operations and business risks inherent in the activities of Laclede Group's subsidiaries. If, in the normal course of business, Laclede Group becomes a party to litigation, such litigation could

result in substantial monetary judgments, fines, or penalties or be resolved on unfavorable terms. In accordance with customary practice, Laclede Group and its subsidiaries maintain insurance against a significant portion of, but not all, risks and losses. In addition, in the normal course of its operations, Laclede Group and its subsidiaries may be exposed to loss from other sources, such as bad debt expense or the failure of a counterparty to meet its financial obligations. Laclede Group and its operating companies employ many strategies to gain assurance that such risks are appropriately managed, mitigated, or insured, as appropriate. To the extent a loss is not fully covered by insurance or other risk mitigation strategies, that loss could adversely affect the Company's financial condition and results of operations.



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Increased inter-dependence on technology may adversely hinder Laclede Group's business operations and affect its financial condition and results of operations if such technologies fail or are compromised.

Over the last several years, Laclede Group and its subsidiaries have implemented a variety of technological tools including both Company-owned information technology and technological services provided by outside parties. In fiscal year 2013, the Company completed its implementation of a Company-wide enterprise resource planning (ERP) system. These tools and systems support critical functions including the Company's integrated planning, scheduling and dispatching of field resources, its automated meter reading system, customer care and billing, procurement and accounts payable, operational plant logistics, management reporting, and external financial reporting. The failure of these or other similarly important technologies, or the Company's inability to have these technologies supported, updated, expanded, or integrated into other technologies, could hinder its business operations and adversely impact its financial condition and results of operations. Although the Company has, when possible, developed alternative sources of technology and built redundancy into its computer networks and tools, there can be no assurance that these efforts to date would protect against all potential issues related to the loss of any such technologies or their use.

Furthermore, the Company is subject to cyber-security risks primarily related to breaches of security pertaining to sensitive customer, employee, and vendor information maintained by the Company in the normal course of business, as well as breaches in the technology that manages natural gas distribution operations and other business processes. A loss of confidential or proprietary data or security breaches of other technology business tools could adversely affect the Company's reputation, diminish customer confidence, disrupt operations, and subject the Company to possible financial liability, any of which could have a material affect on the Company's financial condition and results of operations. The Company closely monitors both preventive and detective measures to manage these risks and maintains cyber risk insurance to mitigate a significant portion, but not all, of these risks and losses. To the extent that the occurrence of any of these cyber events is not fully covered by insurance, it could adversely affect the Company's financial condition and results of operations.

The Company has also completed the acquisition of the assets and liabilities of MGE in Kansas City. Through fiscal 2015, the Utility will be integrating MGE's data into Laclede's systems. During this time the Utility will also be evaluating the security controls both process and tool based in place at MGE.

Resources expended to pursue business acquisitions, investments or other business arrangements may adversely affect Laclede Group's financial position and results of operations and return on investments made may not meet expectations.

From time to time, Laclede Group may seek to grow through strategic acquisitions, investments or other business arrangements, including the Missouri Gas Energy transaction completed in fiscal year 2013. Attractive acquisition candidates may be difficult to acquire on economically acceptable terms. It is possible for Laclede Group to expend considerable resources pursuing an acquisition candidate, but for a variety of reasons such as changes in economic conditions, changes in the acquisition candidate's business or concerns arising out of due diligence review, decide not to consummate a definitive transaction. To the extent that acquisitions are made, such acquisitions involve a number of risks, including but not limited to, the assumption of material liabilities, the diversion of management's attention from daily operations to the integration of the acquisition, difficulties in assimilation and retention of employees, securing adequate capital to support the transaction, and regulatory approval. Uncertainties exist in assessing the value, risks, profitability, and liabilities associated with certain businesses or assets and there is a possibility that anticipated operating and financial synergies expected to result from an acquisition do not develop. The failure to complete an acquisition successfully, or to integrate future acquisitions that it may choose to undertake could have an adverse effect on its financial condition, results of operations and the market's perception of the Company's execution of its strategy.

In order to manage and diversify the risks of certain development projects, Laclede Group may use partnerships or other investments. Such business arrangements may limit Laclede Group's ability to fully direct the management and policies of the business relationship. These arrangements may cause additional risks such as operating agreements limiting Laclede Group's control or Laclede Group's ability to appropriately value the business drivers or assets of the business arrangement. While Laclede Group would pursue strategies to mitigate these risks and enforce its interests, these risks may adversely impact the projects and Laclede Group's financial condition, results of operations and cash flows.

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Changes in accounting standards may adversely impact the Utility's financial condition and results of operations.

Laclede group is subject to changes in U.S. Generally Accepted Accounting Principles (GAAP), SEC regulations and other interpretations of financial reporting requirements for public utilities. The company has no control over the impact these changes may have on our financial condition or results of operations nor the timing of such changes. The potential issues associated with rate-regulated accounting, along with other potential changes considered by U.S. Financial Accounting Standards Board continues to consider various changes to U.S. GAAP may be significant.

**RISKS RELATED TO THE COMPANY'S ACQUISITION OF MISSOURI GAS ENERGY (MGE) ASSETS AND LIABILITIES AS WELL AS THE ACQUISITION AGREEMENTS WITH SOUTHERN UNION COMPANY AND ALGONQUIN POWER & UTILITIES CORP REGARDING NEW ENGLAND GAS ASSETS AND LIABILITIES.**

The New England Gas (NEG) transaction may not be completed or may be approved subject to unfavorable regulatory conditions, which could adversely affect anticipated benefits and/or Laclede Group's business, financial condition, results of operations and/or stock price.

On December 14, 2012, Laclede Group, through a wholly owned subsidiary, Plaza Massachusetts Acquisition, Inc. (Plaza Massachusetts), entered into an acquisition agreement to acquire from Southern Union Company (SUG) substantially all of the assets and liabilities of New England Gas Company (NEG). On February 11, 2013, the Company entered into an agreement with Algonquin Power & Utilities Corp. (APUC) that will allow an APUC subsidiary, through its acquisition of the stock of Plaza Massachusetts, to acquire the Company's rights to purchase the assets of NEG, subject to certain approvals and conditions. In order to close the NEG transaction, approval by the Massachusetts Department of Public Utilities (MDPU) of the acquisition of the assets of NEG by the APUC subsidiary must be received.

The sale of NEG to APUC is still pending before the MDPU. The acquisition agreement contains certain termination rights for both the Company 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). The Company and SUG have agreed to extend the NEG purchase agreement twice until December 14, 2013 to enable the MDPU to complete its review process. Nonetheless, there can be no assurance that APUC will be able to satisfy all of the required conditions on or before the end of the extension periods. The Company's agreement to acquire NEG remains in effect if APUC cannot satisfy the conditions for closing before the expiration of the extension periods.

The pending transaction with APUC and SUG for the NEG assets subjects Laclede Group to a number of additional risks, including the following:

- the Company's estimate of the costs to complete the sale of NEG may vary significantly from actual results; both before and after the sale of NEG to APUC, the attention of management may be diverted to the closing of the sale of NEG rather than to current operations, the integration of MGE or the pursuit of other opportunities that could be beneficial to the Company;
- the potential loss of key employees of the Company or of NEG who may be uncertain about their future roles if and when the NEG sale is completed; and
- the trading price of Laclede Group's common stock may decline to the extent that the current market price reflects a market assumption that the transaction will be completed.

The occurrence of any of these events individually or in combination could have a material adverse effect on the Company's business, financial condition or results of operations or the trading price of its common stock.

On August 13, 2013, the Utility issued debt in the aggregate principal amount of \$450 million to provide permanent financing for the acquisition of MGE and, as a result, the Company is subject to risks related to a higher level of indebtedness.

In connection with the MGE acquisition, the Utility incurred additional debt to pay a portion of the acquisition cost and transaction expenses. The Utility's total indebtedness as of September 30, 2013 was \$1,011 million (including \$121 million of short-term borrowings and \$890 million of long-term debt).

The Utility's debt service obligations with respect to this increased indebtedness could have an adverse impact on its earnings and cash flows (which after the acquisition include the earnings and cash flows of MGE) for as long as the indebtedness is outstanding.

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Among other risks, the increase in indebtedness may:

- make it more difficult for Laclede Group to pay or refinance its debts as they become due during adverse economic and industry conditions;
- limit the Company'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 Company's cash flows from operations of Laclede Group and the Utility 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 Laclede Group's or the Utility's indebtedness, which could limit their ability to borrow additional funds or increase the interest rates applicable to their indebtedness;
- result in higher interest expense in the event of an increase in market interest rates for both long-term debt and 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 Company.

Based upon current levels of operations, the Utility expects to be able to generate sufficient cash through earnings on a consolidated basis or through refinancing to make all of the principal and interest payments when such payments are due under its existing credit agreements, indentures and other instruments governing its outstanding indebtedness; but there can be no assurance that the Utility will be able to repay or refinance such borrowings and obligations in future periods.

In addition, in order to maintain investment-grade credit ratings, Laclede Group may consider it appropriate to reduce the amount of indebtedness outstanding following the acquisitions. This may be accomplished in several ways, including issuing additional shares of common stock or securities convertible into shares of common stock, reducing discretionary uses of cash or a combination of these and other measures. Issuances of additional shares of common stock or securities convertible into shares of common stock would have the effect of diluting the ownership percentage that shareholders hold in the combined company, increase the Company's dividend payment obligations and might reduce the reported earnings per share.

The acquisition of MGE and associated costs and integration efforts may adversely affect the Company's business, financial condition or results of operations, which may negatively affect the market price of Laclede Group's common shares.

While management currently anticipates that the acquisition of MGE will be accretive to the Utility's net economic earnings in fiscal year 2014, and thereafter, this expectation is based on preliminary estimates which may materially change. Laclede Group may encounter additional transaction and integration-related costs, may fail to realize all of the anticipated synergies and benefits of the acquisitions 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. Integration could take longer than anticipated and could result in inconsistencies in standards, controls, procedures, practices, policies and compensation arrangements. 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 Laclede Group after the acquisitions are ultimately consummated.

The Company expects to incur costs associated with integrating the operations of the utilities, and management's estimate of the costs and the operating performance after the transaction closes may vary significantly from actual results. In accordance with the Unanimous Stipulation and Agreement, the Utility may amortize and recover certain

transition costs in future rate case proceedings subject to review of other parties' and the Missouri Public Service Commission's (MoPSC or Commission) approval of the Company's quantification of such cost. Potential differences regarding these quantifications may impact the Company's financial results. Additional unanticipated costs may be incurred in the integration of the businesses.

Any of these factors could cause a decrease in the price of Laclede Group's common shares.

The acquisition of MGE may not achieve its intended results, including anticipated synergies and cost savings.

Although we expect that the acquisition of MGE will result in various benefits, including a significant amount of synergies, cost savings and other financial and operational benefits, there can be no assurance regarding when or the extent to which we will be able to realize these synergies, cost savings or other benefits. Achieving the anticipated benefits, including synergies and cost savings, is subject to a number of uncertainties, including whether the assets acquired can be operated in the manner we intend. Events outside of our control, including but not limited to regulatory changes or developments, could also adversely affect our ability to realize the anticipated benefits from the MGE acquisition.

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Thus the integration of MGE may be unpredictable, subject to delays or changed circumstances, and we can give no assurance that the acquired assets will perform in accordance with our expectations or that our expectations with respect to integration, synergies or cost savings as a result of the MGE acquisition will materialize. In addition, our anticipated costs to achieve the integration of MGE may differ significantly from our current estimates. The integration may place an additional burden on our management and internal resources, and the diversion of management's attention during the integration process could have an adverse effect on our business, financial condition and expected operating results.

We are dependent on ETE and SUG for certain transitional services for MGE to be provided pursuant to a continuing services agreement. The failure of ETE or SUG to perform its obligations under this agreement could adversely affect our business, financial results and financial condition.

We are initially dependent upon ETE and SUG to continue to provide certain shared services and business support functions in areas such as technology and human resources for a period of time after the close of the acquisition to facilitate the integration of MGE. The terms of these arrangements are governed by a continuing services agreement. If ETE or SUG fails to perform its obligations under the continuing services agreement, we may not be able to perform such services or obtain such services from third parties on favorable terms or at all. In addition, upon termination of the continuing services agreement, if we are unable to perform such services or obtain such services from third parties, it could adversely affect our business, financial results and financial condition.

In connection with the MGE acquisition, the Utility recorded goodwill and long-lived assets that could become impaired and adversely affect its financial condition and results of operations.

Laclede Group will assess goodwill for impairment annually or more frequently if events or circumstances occur that would more likely than not reduce the fair value of a reporting unit below its carrying value. The Company assesses its long-lived assets for impairment whenever events or circumstances indicate that an asset's carrying amount may not be recoverable. To the extent the value of goodwill or long-lived assets becomes impaired, the Company may be required to incur impairment charges that could have a material impact on its results of operations. No impairment of long-lived assets was recorded during 2013.

Since interest rates are a key component, among other assumptions, in the models used to estimate the fair values of our reporting units, as interest rates rise, the calculated fair values decrease and future impairments may occur. Due to the subjectivity of the assumptions and estimates underlying the impairment analysis, Laclede Group cannot provide assurance that future analyses will not result in impairment. These assumptions and estimates include projected cash flows, current and future rates for contracted capacity, growth rates, weighted average cost of capital and market multiples. For additional information, see Item 7, "Critical Accounting Policies."

## RISKS THAT RELATE TO THE GAS UTILITY DISTRIBUTION SEGMENT

Regulation of the Utility business may impact rates it is able to charge, costs, and profitability.

The Missouri Public Service Commission (MoPSC or Commission) regulates many aspects of the Utility's distribution operations, including construction and maintenance of facilities, operations, safety, the rates that the Utility may charge customers, the terms of service to its customers, transactions with its affiliates, and the rate of return that it is allowed to realize; as well as the accounting treatment for certain aspects of its operations. For further discussion of these accounting matters, see Critical Accounting Policies pertaining to the Utility operations, beginning on page 34. The Utility's ability to obtain and timely implement rate increases and rate supplements to maintain the current rate of return depends upon regulatory discretion. There can be no assurance that it will be able to obtain rate increases or rate supplements or continue earning the current authorized rates of return. Furthermore, in accordance with the

Unanimous Stipulation and Agreement, the Utility will not file a general rate case, other than the currently pending MGE rate case, for non-gas costs prior to October 1, 2015 unless a significant, unusual event impacts any of its operations. The first general rate case filed after October 1, 2015, requires that it be for both Laclede Gas and MGE.

The Utility could incur additional costs if required to adjust to new laws or regulations, revisions to existing laws or regulations or changes in interpretations of existing laws or regulations such as the Dodd-Frank Act. In addition, as the regulatory environment for the natural gas industry increases in complexity, the risk of inadvertent noncompliance could also increase. If the Utility fails to comply with applicable laws and regulations, whether existing or new, it could be subject to fines, penalties or other enforcement action by the authorities that regulate its operations.



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The Utility is involved in legal or administrative proceedings before various courts and governmental bodies that could adversely affect our results of operations, cash flows and financial condition.

The Utility is involved in legal or administrative proceedings before various courts and governmental bodies with respect to general claims, rates, environmental issues, gas cost prudence reviews and other matters. Adverse decisions regarding these matters, to the extent they require the Utility to make payments in excess of amounts provided for in our financial statements, or to the extent they are not covered by insurance, could adversely affect the Utility's results of operations, cash flows and financial condition.

The Utility's liquidity may be adversely affected by delays in recovery of its costs, due to regulation.

In the normal course of business, there may be a lag between when the Utility incurs increases in certain of its costs and the time in which those costs are considered for recovery in the ratemaking process. Cash requirements for increased operating costs, increased funding levels of defined benefit pension and postretirement costs, capital expenditures, and other increases in the costs of doing business may require outlays of cash prior to the authorization of increases in rates charged to customers, as approved by the MoPSC. Accordingly, the Utility's liquidity may be adversely impacted to the extent higher costs are not timely recovered from its customers. In accordance with the Unanimous Stipulation and Agreement, the Utility will not file a general rate case for non-gas costs prior to October 1, 2015 unless a significant, unusual event impacts any of its operations. The first general rate case filed after October 1, 2015, is required to be for both Laclede Gas and MGE.

The Utility's ability to meet its customers' natural gas requirements may be impaired if contracted gas supplies, interstate pipeline and/or storage services are not available or delivered in a timely manner.

In order to meet its customers' annual and seasonal natural gas demands, the Utility must obtain sufficient supplies, interstate pipeline capacity, and storage capacity. If it is unable to obtain these, either from its suppliers' inability to deliver the contracted commodity or the inability to secure replacement quantities, the Utility's financial condition and results of operations may be adversely impacted. If a substantial disruption in interstate natural gas pipelines' transmission and storage capacity were to occur during periods of heavy demand, the Utility's financial results could be adversely impacted.

The Utility's liquidity and, in certain circumstances, its results of operations may be adversely affected by the cost of purchasing natural gas during periods in which natural gas prices are rising significantly.

Laclede Gas' and MGE's tariff rate schedules contain Purchased Gas Adjustment (PGA) Clauses that permit it to file for rate adjustments to recover the cost of purchased gas. Changes in the cost of purchased gas are flowed through to customers and may affect uncollectible amounts and cash flows and can therefore impact the amount of capital resources. Currently, Laclede Gas and MGE are allowed to adjust the gas cost component of their rates up to four times each year. The Utility must make a mandatory gas cost adjustment at the beginning of the winter, in November, and during the next twelve months it may make up to three additional discretionary gas cost adjustments, so long as each of these adjustments is separated by at least two months.

The MoPSC typically approves the Utility's PGA changes on an interim basis, subject to refund and the outcome of a subsequent audit and prudence review. Due to such review process, there is a risk of a disallowance of full recovery of these costs. Any material disallowance of purchased gas costs would adversely affect revenues. Increases in the prices the Utility charges for gas may also adversely affect revenues because they could lead customers to reduce usage and cause some customers to have trouble paying the resulting higher bills. These higher prices may increase bad debt expenses and ultimately reduce earnings. The Utility has used short-term borrowings in the past to finance storage inventories and purchased gas costs, and expects to do so in the future. Rapid increases in the price of purchased gas

may result in an increase in short-term debt.

To lower financial exposure to commodity price fluctuations, the Utility enters into contracts to hedge the forward commodity price of its natural gas supplies. As part of this strategy, the Utility may use fixed-price, forward, physical purchase contracts, swaps, futures, and option contracts. However, the Utility does not hedge the entire exposure of energy assets or positions to market price volatility, and the coverage will vary over time. Any costs, gains, or losses experienced through hedging procedures, including carrying costs, generally flow through the PGA Clause, thereby limiting the Utility's exposure to earnings volatility. However, variations in the timing of collections of such gas costs under the PGA Clause and the effect of cash payments for margin deposits associated with the Utility's use of natural gas derivative instruments may cause short-term cash requirements to vary. These procedures remain subject to prudence review by the MoPSC.

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The Utility may be adversely affected by economic conditions.

Periods of slowed economic activity generally result in decreased energy consumption, particularly by industrial and large commercial companies. As a consequence, national or regional recessions or other downturns in economic activity could adversely affect the Utility's revenues and cash flows or restrict its future growth. Economic conditions in its service territory may also adversely impact the Utility's ability to collect its accounts receivable resulting in an increase in bad debt expenses.

The Utility is dependent on bank lines of credit and continued access to capital markets to successfully execute its operating strategies.

In addition to longer-term debt that is issued by the Utility under its mortgage and deed of trust dated February 1, 1945, the Utility has relied, and continues to rely, upon shorter term borrowings or commercial paper supported by bank lines of credit to finance the execution of a portion of its operating strategies. The Utility is dependent on these capital sources to purchase its natural gas supply and maintain its properties. The availability and cost of these credit sources is cyclical and these capital sources may not remain available to the Utility, or it may not be able to obtain funds at a reasonable cost in the future. The Utility's ability to borrow under its existing lines of credit depends on its compliance with the Utility's obligations under the lines of credit. If the Utility were to breach any of the financial or other covenants under these agreements, its debt repayment obligations under them could be accelerated. The Utility's ability to issue commercial paper supported by its lines of credit, to issue long-term bonds, or to obtain new lines of credit also depends on current conditions in the credit markets. The Utility's access to funds under committed short-term credit facilities, which are currently provided by a number of banks, is dependent on the ability of the participating banks to meet their funding commitments. Those banks may not be able to meet their funding commitments if they experience shortages of capital and liquidity. Disruptions in the bank or capital financing markets as a result of economic uncertainty, changing or increased regulation of the financial sector, or failure of major financial institutions could adversely affect the Utility's access to capital and negatively impact its ability to run its business and make strategic investments.

A downgrade in the Utility's credit rating may negatively affect its ability to access capital.

Standard & Poor's, Moody's Investors Service, and Fitch Ratings from time to time implement new requirements for various ratings levels. To maintain its current credit ratings in light of any new requirements, the Utility may find it necessary to take steps to change its business plans in ways that may affect its results of operations. The Utility's credit ratings remain at investment grade, but are subject to review and change by the rating agencies. If the rating agencies lowered the Utility's ratings, particularly below investment grade, it could significantly limit its ability to secure new or additional credit facilities and would increase its costs of borrowing. In addition, the Utility would likely be required to pay a higher interest rate in future long-term financings and the Utility's potential pool of investors and funding sources would likely decrease. The Utility's ability to borrow under current or new credit facilities and costs of that borrowing have a direct impact on its ability to execute operating strategies.

Numerous environmental laws and regulations may require significant expenditures or increase operating costs.

The Utility is subject to federal, state and local environmental laws and regulations affecting many aspects of its present and future operations. These laws and regulations require the Utility to obtain and comply with a wide variety of environmental licenses, permits, inspections, and approvals. Failure to comply with these laws and regulations and failure to obtain any required permits and licenses may result in costs to the Utility in the form of fines, penalties or business interruptions, which may be material. In addition, existing environmental laws and regulations could be revised or reinterpreted and/or new laws and regulations could be adopted or become applicable to the Utility or its facilities, thereby impacting the Utility's cost of compliance. The discovery of presently unknown environmental

conditions, including former manufactured gas plant sites, and claims against the Utility under environmental laws and regulations may result in expenditures and liabilities, which could be material. To the extent environmental compliance costs are not fully covered by insurance or recovered in rates from the Utility's customers, those costs may have an adverse effect on the Utility's financial condition and results of operations.

The Utility is subject to pipeline safety and system integrity laws and regulations that may require significant expenditures or significant increases in operating costs.

Such laws and regulations affect various aspects of the Utility's present and future operations. These laws and regulations require the Utility to maintain pipeline safety and system integrity by identifying and reducing pipeline risks. Compliance with these laws and regulations, or future changes in these laws and regulations, may result in increased capital, operating and other costs which may not be recoverable in a timely manner from customers in rates.

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Failure to comply may result in fines, penalties, or injunctive measures that would not be recoverable from customers in rates and could result in a material effect on the Utility's financial condition and results of operations.

Transporting, distributing, and storing natural gas and transporting and storing propane involves numerous risks that may result in accidents and other operating risks and costs.

There are inherent in gas distribution activities a variety of hazards and operations risks, such as leaks, accidental explosions, including third party damages, and mechanical problems, which could cause substantial financial losses. In addition, these risks could result in serious injury to employees and non-employees, loss of human life, significant damage to property, environmental pollution, impairment of operations, and substantial losses to the Utility. The location of pipelines and storage facilities near populated areas, including residential areas, commercial business centers, and industrial sites, could increase the level of damages resulting from these risks. Similar risks also exist for the Utility's propane storage and transmission operations. These activities may subject the Utility to litigation or administrative proceedings from time to time. Such litigation or proceedings could result in substantial monetary judgments, fines, or penalties against the Utility or be resolved on unfavorable terms. In accordance with customary industry practices, the Utility maintains insurance against a significant portion, but not all, of these risks and losses. To the extent that the occurrence of any of these events is not fully covered by insurance, it could adversely affect the Utility's financial condition and results of operations.

Changes in the wholesale costs of purchased natural gas supplies may adversely impact the Utility's competitive position compared with alternative energy sources.

The Utility is the only distributor of natural gas within its franchised service area. Nevertheless, the changes in wholesale natural gas prices compared with prices for electricity, fuel oil, coal, propane, or other energy sources may affect the Utility's retention of natural gas customers and adversely impact its financial condition and results of operations.

Significantly warmer-than-normal weather conditions, the effects of global warming and climate change, and other factors that influence customer usage may affect the Utility's sale of heating energy and adversely impact its financial position and results of operations.

The Utility's earnings are primarily generated by the sale of heating energy. The Utility has weather mitigation rate designs, approved by the MoPSC, which provide better assurance of the recovery of the Utility's fixed costs and margins during winter months despite variations in sales volumes due to the impacts of weather and other factors that affect customer usage.

However, significantly warmer-than-normal weather conditions in the Utility's service area and other factors, such as global warming, climate change and alternative energy sources, may result in reduced profitability and decreased cash flows attributable to lower gas sales. Furthermore, continuation of the weather mitigation rate design at Laclede Gas or the straight fixed variable rate design at MGE are subject to regulatory discretion. In addition, the promulgation of regulations by the U.S. Environmental Protection Agency or the potential enactment of Congressional legislation addressing global warming and climate change may result in future additional compliance costs that could impact the Utility's financial condition and results of operations.

Regional supply/demand fluctuations and changes in national pipeline infrastructure, as well as regulatory discretion, may adversely affect the Utility's ability to profit from off-system sales and capacity release.

The Utility's income from off-system sales and capacity release is subject to fluctuations in market conditions and changing supply and demand conditions in areas the Utility holds pipeline capacity rights. Specific factors impacting the Utility's income from off-system sales and capacity release include the availability of attractively-priced natural

gas supply, availability of pipeline capacity, and market demand. Income from off-system sales and capacity release is shared with customers. 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. In accordance with the MoPSC agreement to suspend the procedural schedule in Laclede Gas' base rate proceeding, the Utility deferred, until fiscal year 2017, its ability to retain 15% of the first \$2 million. MGE is allowed to retain 15% to 25% of the first \$3.6 million in annual income earned (depending on the level of income earned) and 30% of income exceeding \$3.6 million annually. The Utility's ability to retain such income in the future is subject to regulatory discretion in a base rate proceeding.

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Workforce risks may affect the Utility's financial results.

The Utility is subject to various workforce risks, including, but not limited to, the risk that it will be unable to attract and retain qualified personnel; that it will be unable to effectively transfer the knowledge and expertise of an aging workforce to new personnel as those workers retire; and that it will be unable to reach collective bargaining arrangements with the unions that represent certain of its workers, which could result in work stoppages.

Catastrophic events may adversely affect the Utility's facilities and operations.

Catastrophic events such as fires, earthquakes, explosions, floods, tornados, terrorist acts, or other similar occurrences could adversely affect the Utility's facilities and operations. The Utility has emergency planning and training programs in place to respond to events that could cause business interruptions. However, unanticipated events or a combination of events, failure in resources needed to respond to events, or slow or inadequate response to events may have an adverse impact on the Utility's operations, financial condition, and results of operations. The availability of insurance covering catastrophic events may be limited or may result in higher deductibles, higher premiums, and more restrictive policy terms.

## RISKS THAT RELATE TO THE GAS MARKETING SEGMENT

Increased competition, fluctuations in natural gas commodity prices, expiration of existing supply and transportation arrangements, and pipeline infrastructure projects may adversely impact LER's future profitability.

Competition in the marketplace and fluctuations in natural gas commodity prices have a direct impact on LER's business. Changing market conditions and prices, the narrowing of regional and seasonal price differentials, and limited future price volatility may adversely impact LER's sales margins or affect LER's ability to procure gas supplies and/or to serve certain customers, which may reduce sales profitability and/or increase certain credit requirements caused by reductions in netting capability. Also, LER's profitability may be impacted by the effects of the expiration, in the normal course of business, of certain of its natural gas supply contracts if those contracts cannot be replaced and/or renewed with arrangements with similar terms and pricing. Although the FERC regulates the interstate transportation of natural gas and establishes the general terms and conditions under which LER may use interstate gas pipeline capacity to purchase and transport natural gas, LER must occasionally renegotiate its transportation agreements with a concentrated group of pipeline companies. Renegotiated terms of new agreements, or increases in FERC-authorized rates of existing agreements, may impact LER's future profitability. Profitability may also be adversely impacted if pipeline capacity or future storage capacity secured by LER is not fully utilized and/or its costs are not fully recovered.

Reduced access to credit and/or capital markets may prevent LER from executing operating strategies.

LER relies on its cash flows, netting capability, parental guarantees, and access to Laclede Group's liquidity resources to satisfy its credit and working capital requirements. LER's ability to rely on parental guarantees is dependent upon Laclede Group's financial condition and credit ratings. If the rating agencies lowered Laclede Group's credit ratings, particularly below investment grade, counterparty acceptance of parental guarantees may diminish, resulting in decreased availability of credit. Additionally, under such circumstances, certain counterparties may require LER to provide prepayments or cash deposits, amounts of which would be dependent upon natural gas market conditions. Reduced access to credit or increased credit requirements, which may also be caused by factors such as higher overall natural gas prices, may limit LER's ability to enter into certain transactions. In addition, LER has concentrations of counterparty credit risk in that a significant portion of its transactions are with (or are associated with) energy producers, utility companies, and pipelines. These concentrations of counterparties have the potential to affect the Company's overall exposure to credit risk, either positively or negatively, in that each of these three groups may be

affected similarly by changes in economic, industry, or other conditions. LER also has concentrations of credit risk in certain individually significant counterparties. LER closely monitors its credit exposure and, although uncollectible amounts have not been significant, increased counterparty defaults are possible and may result in financial losses and/or capital limitations.

Risk management policies, including the use of derivative instruments, may not fully protect LER's sales and results of operations from volatility and may result in financial losses.

In the course of its business, LER enters into contracts to purchase and sell natural gas at fixed prices and index-based prices. Commodity price risk associated with these contracts has the potential to impact earnings and cash flows. To minimize this risk, LER has a risk management policy that provides for daily monitoring of a number of business measures, including fixed price commitments.



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LER currently manages the commodity price risk associated with fixed-price commitments for the purchase or sale of natural gas by either closely matching the offsetting physical purchase or sale of natural gas at fixed prices or through the use of natural gas futures, options, and swap contracts traded on or cleared through the NYMEX and ICE to lock in margins. These exchange-traded/cleared contracts may be designated as cash flow hedges of forecasted transactions. However, market conditions and regional price changes may cause ineffective portions of matched positions to result in financial losses. Additionally, to the extent that LER's natural gas contracts are classified as trading activities or do not otherwise qualify for the normal purchases or normal sales designation (or the designation is not elected), the contracts are recorded as derivatives at fair value each period. Accordingly, the associated gains and losses are reported directly in earnings and may cause volatility in results of operations. Gains or losses (realized and unrealized) on certain wholesale purchase and sale contracts, consisting of those classified as trading activities, are required to be presented on a net basis (instead of a gross basis) in the statements of consolidated income. Such presentation could result in reductions to and/or volatility in the Company's operating revenues.

LER's ability to meet its customers' natural gas requirements may be impaired if contracted gas supplies and interstate pipeline services are not available or delivered in a timely manner.

LER's ability to deliver natural gas to its customers is contingent upon the ability of natural gas producers, other gas marketers, and interstate pipelines to fulfill their delivery obligations to LER under firm contracts. If these counterparties fail to perform, they have a contractual obligation to reimburse LER for any adverse consequences. LER will attempt to use such reimbursements to obtain the necessary supplies so that LER may fulfill its customer obligations. To the extent that it is unable to obtain the necessary supplies, LER's financial position and results of operations may be adversely impacted.

Regulatory and legislative developments pertaining to the energy industry may adversely impact LER's results of operations, financial condition and cash flows.

LER's business is non-regulated in that the rates it charges its customers are not established by or subject to approval by any regulatory body. However, LER is subject to various laws and regulations affecting the energy industry. New regulatory and legislative actions may adversely impact LER's results of operations, financial condition, and cash flows by potentially reducing customer growth opportunities and/or increasing the costs of doing business.

LER could incur additional costs to comply with new laws and regulations, such as the Dodd-Frank Act. In addition, as the regulatory environment for the natural gas industry increases in complexity, the risk of inadvertent noncompliance could also increase. If LER fails to comply with applicable laws and regulations, whether existing or new ones, it could be subject to fines, penalties or other enforcement action by the authorities that regulate its operations.

### Item 1B. Unresolved Staff Comments

None.

### Item 2. Properties

The principal properties of the Utility consist of more than 30,000 miles of gas main and related service pipes, meters, and regulators. Other physical properties include regional service centers and related buildings. Extensive underground natural gas and propane storage facilities and equipment are located in an area in North St. Louis County extending under the Missouri River into St. Charles County. Substantially all of the Utility's utility plant is subject to the liens of its mortgage.

All of the properties of the Utility are held in fee, or by easement, or under lease agreements. The principal lease agreements include underground storage rights that are of indefinite duration, the downtown St. Louis office building and MGE's Kansas City, Missouri office building. The current lease on the downtown St. Louis office building extends through February 2015 with the option to renew for a term of five additional years. The current lease on MGE's Kansas City office lease extends through November 30, 2015 with the option to renew for four additional terms of five years each.

For further information on the Utility's leases see Note 16, Commitments and Contingencies, of the Notes to Consolidated Financial Statements.

Other properties of Laclede Group, including LER, do not constitute a significant portion of its properties.

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Item 3. Legal Proceedings

For a description of environmental matters, see Note 16, Commitments and Contingencies, of the Notes to Consolidated Financial Statements. For a description of pending regulatory matters of Laclede Group, see the Regulatory and Other Matters discussion in the Management's Discussion and Analysis of Financial Condition and Results of Operations, on page 36.

Laclede Group and its subsidiaries are involved in litigation, claims, and investigations arising in the normal course of business. Management, after discussion with counsel, believes the final outcome will not have a material effect on the consolidated financial position or results of operations reflected in the consolidated financial statements presented herein.

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EXECUTIVE OFFICERS OF THE REGISTRANT – Listed below are executive officers as defined by the SEC for Laclede Group. Their ages, at September 30, 2013, and positions are listed below along with their business experience during the past five years.

Name, Age, and Position with Company *	Appointed (1)
S. Sitherwood, Age 53	
Laclede Group President and Chief Executive Officer President (2)	February 2012 September 2011
Laclede Gas Chairman of the Board and Chief Executive Officer (2) Chairman of the Board, Chief Executive Officer and President	October 2012 February 2012
S. L. Lindsey, Age 47	
Laclede Group Executive Vice President, Chief Operating Officer, Distribution Operations	October 2012
Laclede Gas President (3)	October 2012
S. P. Rasche, Age 53	
Laclede Group Senior Vice President, Chief Financial Officer Senior Vice President, Finance and Accounting	October 2013 May 2012
Laclede Gas Chief Financial Officer Vice President, Finance (4)	May 2012 November 2009
M. C. Darrell, Age 55	
Laclede Group Senior Vice President, General Counsel and Chief Compliance Officer General Counsel (5)	May 2012 May 2004
M. C. Kullman, Age 53	
Laclede Group Senior Vice President, Chief Administrative Officer and Corporate Secretary Chief Governance Officer and Corporate Secretary	May 2012 February 2004
Laclede Gas	

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Senior Vice President, Assistant Corporate Secretary  
Corporate Secretary  
Chief Governance Officer and Corporate Secretary

October 2013  
May 2012  
February 2004

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M. R. Spotanski, Age 53

Laclede Group

Senior Vice President, Chief Integration and Innovation Officer (6) May 2012

\* The information provided relates to the Company and its principal subsidiaries. Many of the executive officers have served or currently serve as officers or directors for other subsidiaries of the Company.

(1) Officers of Laclede are normally reappointed at the Annual Meeting of the Board of Directors in January of each year.

Ms. Sitherwood served as President of Atlanta Gas Light Company, Chattanooga Gas Company, and Florida City Gas, all of which are subsidiaries of AGL Resources, Inc., from November 2004 to September 2011. During that

(2) time, she also served as Senior Vice President of Southern Operations for AGL Resources, Inc. From September 2011 to February 2012, Ms. Sitherwood served as President of The Laclede Group, Inc. and became its President and Chief Executive Officer effective February 1, 2012.

Mr. Lindsey served as Senior Vice President, Southern Operations of AGL Resources, Inc. and President of its (3) Atlanta Gas Light, Chattanooga Gas and Florida City Gas subsidiaries since December 2011. He also served as Vice President and General Manager of Atlanta Gas Light and Chattanooga Gas from 2005 to 2011.

(4) Mr. Rasche served as the Chief Financial Officer for TLCVision Corporation from 2004 to May 2009.

(5) Mr. Darrell previously served as Senior Vice President and General Counsel of Laclede Gas Company since October 2007.

(6) Mr. Spotanski previously served as Senior Vice President – Operations and Marketing of Laclede Gas Company since October 2007.

Mr. M. D. Waltermire, former Executive Vice President, Chief Financial Officer, retired from the Company and its subsidiaries effective October 1, 2013.

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## Part II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

Laclede Group's common stock trades on The New York Stock Exchange under the symbol "LG." The high and the low sales price for the common stock for each quarter in the two most recent fiscal years are:

	Fiscal 2013		Fiscal 2012	
	High	Low	High	Low
1st Quarter	\$44.04	\$37.35	\$42.81	\$37.23
2nd Quarter	42.89	37.43	43.00	38.58
3rd Quarter	48.50	41.83	40.39	36.53
4th Quarter	47.84	42.84	43.47	39.63

The number of holders of record as of September 30, 2013 was 4,015.

Dividends declared on the common stock for the two most recent fiscal years were:

	Fiscal 2013	Fiscal 2012
1st Quarter	\$0.425	\$0.415
2nd Quarter	0.425	0.415
3rd Quarter	0.425	0.415
4th Quarter	0.425	0.415

For disclosures related to securities authorized for issuance under equity compensation plans, see Item 12, page 94.

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## Item 6. Selected Financial Data

## The Laclede Group, Inc.

(Thousands, Except Per Share Amounts)	Fiscal Years Ended September 30				
	2013	2012	2011	2010	2009
Income statement data					
Operating Revenues:					
Gas Utility	\$847,224	\$763,447	\$913,190	\$864,297	\$1,053,993
Gas Marketing	165,146	358,145	669,375	858,782	836,865
Other	4,649	3,883	20,742	11,950	4,340
Total Operating Revenues	1,017,019	1,125,475	1,603,307	1,735,029	1,895,198
Operating Expenses:					
Gas Utility					
Natural and propane gas	433,442	397,304	549,947	519,905	699,984
Other operation and maintenance expenses	180,342	167,351	172,938	169,239	174,360
Depreciation and amortization	48,283	40,739	39,214	37,572	36,751
Taxes, other than income taxes	60,079	53,672	60,752	61,407	68,639
Total Gas Utility Operating Expenses	722,146	659,066	822,851	788,123	979,734
Gas Marketing	176,554	353,283	652,567	836,687	787,056
Other	21,825	2,524	9,642	5,353	3,344
Total Operating Expenses	920,525	1,014,873	1,485,060	1,630,163	1,770,134
Operating Income	96,494	110,602	118,247	104,866	125,064
Other Income and (Income Deductions) - Net	2,444	3,272	177	3,120	1,453
Interest Charges	28,602	24,945	25,417	26,852	29,746
Income Before Income Taxes and Dividends on Laclede Gas Redeemable Preferred Stock	70,336	88,929	93,007	81,134	96,771
Income Tax Expense	17,578	26,289	29,182	27,094	32,509
Dividends on Laclede Gas Redeemable Preferred Stock	—	—	—	—	15
Net Income	\$52,758	\$62,640	\$63,825	\$54,040	\$64,247
Common stock data					
Weighted Average No. of Common Shares					
Outstanding:					
Basic	25,875	22,262	22,099	21,986	21,893
Diluted	25,952	22,340	22,171	22,039	21,960
Basic Earnings Per Share of Common Stock	\$2.03	\$2.80	\$2.87	\$2.43	\$2.90
Diluted Earnings Per Share of Common Stock	\$2.02	\$2.79	\$2.86	\$2.43	\$2.89
Dividends Declared Per Share of Common Stock	\$1.70	\$1.66	\$1.62	\$1.58	\$1.54
Statements of financial position data					
Net Utility Plant	1,776,630	1,019,299	928,683	884,084	855,929
Other Property and Investments	313,078	56,814	55,373	54,777	49,034
Total Assets	3,125,386	1,880,262	1,783,082	1,840,196	1,762,018
Current Liabilities	353,178	252,124	231,934	333,924	299,140
Deferred Credits and Other Liabilities	813,214	687,111	613,460	606,397	556,608
Long-Term Debt (less current portion)	912,712	339,416	364,357	364,298	389,240
Cash flow data					
Net cash provided by operating activities	163,914	128,101	167,187	106,915	228,753
Net cash used in investing activities	(1,108,299)	(105,404)	(67,007)	(60,773)	(52,254)
Net cash provided by (used in) financing activities	969,909	(38,517)	(143,822)	(33,814)	(116,807)
Consolidated Net Economic Earnings Data (a)					



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Net Income (GAAP)	\$52,758	\$62,640	\$63,825	\$54,040	\$64,247
Unrealized loss (gain) on energy-related derivatives	614	(314 )	(1,415 )	2,125	(3,441 )
Lower of cost or market inventory adjustments	868	—	—	—	—
Realized (gain) loss on economic hedges prior to the sale of the physical commodity	(25 )	163	—	—	—
Acquisition, divestiture and restructuring activities	10,797	123	—	—	—
Net Economic Earnings (Non-GAAP)	\$65,012	\$62,612	\$62,410	\$56,165	\$60,806
Diluted Earnings per Share of Common Stock:					