

FORM NO. 13 P.S.C. MO No. 1

Cancelling P.S.C. No. No. 1

2nd (original)
(revised)

1st (original)
(revised)

Sheet No. 20

Sheet No. 20

Southern Missouri Gas Company, L.P.
Name of Issuing Corporation

For All Communities and Rural Areas
Receiving Natural Gas Service
Community, Town or City

PURCHASED GAS ADJUSTMENT CLAUSE

I. PGA Filing Requirements and Applicability:

The Purchased Gas Adjustment (PGA) Clause applies to all sales and transportation services provided under all natural gas rate schedules and contracts. For purposes of this clause the term "cost of gas" shall include the cost paid to suppliers for the purchase, transportation and storage of gas.

As an alternative to proration, the Company may bill its customers the newly effective rates only when all service being billed is service taken after the effective date of the new rates. As long as any of the service period being billed a customer contains service taken prior to the period before the new rates are effective, the Company can change only the old rates.

All PGA factors are subject to review and approval by the Commission. All PGA factors are interim and subject to adjustment as part of the ACA review. Any PGA filing shall not be approved unless it has first been on file with the Commission for a period of ten (10) business days. The PGA factors approved by the Commission shall remain in effect until the next PGA becomes effective hereunder, or until otherwise changed by law or order of the Commission. Each PGA factor filed hereunder shall cancel and supersede the previously effective PGA factors and shall reflect the current purchased gas cost to be effective thenceforth. The Company will begin billing the new rate when all service being billed to the customer is after the effective date of the new rate.

All necessary supporting documentation must be provided with the PGA filings, including worksheets showing the calculation of the estimate of the Company's gas costs, volumes purchased for resale, the projected monthly demand levels, supply options, transportation demand levels, transportation options, storage options, and other miscellaneous charges and revenues that affect the PGA rate calculation.

The Company shall file a "Total PGA" factor which shall consist of two parts:

- a) The Purchased Gas Adjustment "RPGA" factor as defined in Section II; and
- b) The Actual Cost Adjustment "ACA" which results from the corrections made through the Deferred Purchased Gas Cost-Actual Cost Adjustment Accounts, described in Section III of this clause.

In addition, the "Total PGA" factor may include a "Refund" factor as described in Section IV.

Exhibit No. 3
Case No(s). GR-2005-0279
Date 9-29-05 Rptr RT

DATE OF ISSUE August 28, 2003
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ISSUED BY Scott Klemm
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Vice President
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Filed

FORM NO. 13 P.S.C. MO No. 1 2nd (original) Sheet No. 21
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PURCHASED GAS ADJUSTMENT CLAUSE (cont.)

At least ten (10) business days before the Winter PGA filing and any optional PGA filings, the Company shall file with the Commission an Adjustment Statement and related information showing:

- a) The computation of the revised purchased gas costs factors as described herein; and
- b) A revised Sheet No. 27 setting forth the service classifications of the Company to which the cost changes are to be applied, the net amount per Ccf, expressed to the nearest \$0.0001 to be used in computing customers' bills, and the effective date of such revised change.

The Company shall also file with the Commission copies of any orders, contracts, or other pertinent information applicable to the wholesale rates charged the Company by its natural gas suppliers. The Company shall adequately and completely document purchasing and delivery activities for purposes of its annual gas cost audit.

Electronic Format Submittal of Worksheets for PGA Changes. All PGA filings shall be accompanied by detailed workpapers supporting the filing in an electronic format. Sufficient detail should be provided for Staff to ascertain the level of hedging that is used to develop the gas supply commodity charge for the PGA factor.

A. PGA Filings:

The Company shall have the opportunity to make up to four (4) PGA filings each year; a required Winter PGA and three (3) Optional PGAs. The Winter PGA shall be filed between September 15 and November 4 of each calendar year. The Optional PGAs shall be filed when the Company determines that elements have changed significantly from the currently effective factor. The Optional PGAs shall not become effective in two consecutive months unless specifically ordered by the Commission.

The Winter PGA shall contain rates reflecting: (1) the Company's then current estimate of gas cost revenue requirements for the period between the effective date of filing and the next Winter PGA filing; (2) the Company's ACA adjustment factor relating to or arising during the immediately preceding 12 month ACA period including any interest adjustments; and (3) the Company's Refund factor, if any, relating to or arising from refunds received by the Company and which the Commission orders to be accounted for separately.

If the Company chooses to make Optional PGA filings, the Optional PGA shall contain rates reflecting (1) the Company's revised estimate of annualized gas cost revenue requirements for the period between the effective date of the Winter PGA filing and the next Winter PGA filing; and maintaining (2) the Company ACA adjustment factor and Refund factor, if any, unless otherwise approved by the Commission.

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Southern Missouri Gas Company, L.P. For All Communities and Rural Areas
Name of Issuing Corporation Receiving Natural Gas Service
Community, Town or City

PURCHASED GAS ADJUSTMENT CLAUSE (cont.)

B. ACA Approach for Interest Calculations:

For each month during the ACA period beginning September 1, 2003, and for each month thereafter, interest at a simple rate equal to the prime bank lending rate (as published in *The Wall Street Journal* on the first business day of the following month), minus two (2) percentage points, shall be credited to customers for any over-recovery of gas costs or credited to the Company for any under-recovery of gas costs. Interest shall be computed based on the average of the accumulated over- or under-recovery of all PGA related costs that exceed \$250,000. The average will be determined based on the beginning monthly over- or under-recovered balance and the ending over- or under-recovered balance. The Company shall maintain detailed workpapers that provide the interest calculation on a monthly basis. The Staff and Public Counsel shall have the right to review and propose adjustment to the Company's monthly entries to the interest calculation.

This ACA method for tracking gas costs over- and under-recoveries, for calculating interest on such balances, for applying natural gas service related refunds and take or pay costs directly to the ACA account, and for determining how the PGA is calculated and changed shall be reviewed by the Missouri Public Service Commission Staff, the Office of the Public Counsel, and Southern Missouri Gas Company, L.P. starting no later than April 1, 2005. The PGA and ACA method provisions as delineated in this tariff shall expire on July 1, 2006 unless an agreement is reached by the parties and approved by the Commission, or approved by an Order of the Commission, which reinstates PGA and ACA method provision tariffs before July 1, 2006. When these experimental tariffs expire, the Company will no longer be authorized to calculate interest on the ACA balance through any approach (including the previous Deferred Carrying Cost Balance method) until new tariffs are approved that address interest on the ACA balance. After these experimental tariffs expire and new tariffs have not been approved, refunds will be treated pursuant to the pre-experimental method.

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Southern Missouri Gas Company, L.P.
Name of Issuing Corporation

All Communities and Rural Areas
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Community, Town or City

PURCHASED GAS ADJUSTMENT CLAUSE (cont.)

II. REGULAR PURCHASED GAS ADJUSTMENTS:

Charges for gas service contained in the Company's then effective retail rate schedules on file with the Missouri Public Service Commission shall be adjusted by a Regular Purchased Gas Adjustment (RPGA), determined in the following manner.

1. Computation of RPGA Factors:

The Company's RPGA factors shall be calculated based on the best estimate of the Company's gas costs and volumes purchased for resale, as calculated by the Company and approved by the Commission. Calculation of the best estimate of the Company's gas costs and volumes purchased for resale shall consider the Company's projected monthly demand levels, supply options, transportation options, storage options, and other miscellaneous charges and revenues that affect the RPGA rate calculation. The costs to be included in the RPGA rate calculation shall be limited to the projected costs necessary to deliver the volumes purchased for resale to the Company's city gate. The actual gas costs shall include the commodity cost of storage withdrawals and exclude the commodity cost of storage injections.

The gas cost revenue requirement component of the RPGA factor, relating to fixed pipeline transportation and storage charges, fixed gas supply charges, and other fixed FERC authorized charges, will be determined in a manner similar to the way they have historically been determined in the Company's PGA Clause.

For the gas commodity component of the RPGA factor, including variable transportation costs, gas supply commodity costs, and other FERC-authorized commodity charges, the Company will utilize any technique or method it deems reasonable for purposes of estimating the gas cost revenue requirement to be reflective for this component in each RPGA filing. The commodity-related charges shall include, but not be limited to, producer gas supply commodity charges, pipeline transmission and gathering commodity charges, expected costs or cost reductions to be realized for the entire winter period, related storage withdrawals, gas purchases under fixed-price contracts, the Company's use of financial instruments, except for call options for which only cost reductions expected to be realized during the months covered by the Company's PGA filing shall be reflected.

For transportation customers that purchase gas from the Company, SMGC shall bill transportation customers the highest priced gas during the billing month of use. The Company shall use the revenues of such billings as gas cost recovery for the development of the ACA factor herein provided.

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Sheet No. 24

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Sheet No. 24

Southern Missouri Gas Company, L.P.

Name of Issuing Corporation

For All Communities and Rural Areas
Receiving Natural Gas Service
Community, Town or City

PURCHASED GAS ADJUSTMENT CLAUSE (cont.)

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Southern Missouri Gas Company, L.P. All Communities and Rural Areas
Name of Issuing Corporation For Receiving Natural Gas Service
Community, Town or City

PURCHASED GAS ADJUSTMENT CLAUSE (cont.)

III. DEFERRED PURCHASED GAS COST - ACTUAL COST ADJUSTMENT ACCOUNTS:

The Company shall establish and maintain a Deferred Purchased Gas Cost - Actual Cost Adjustment (ACA) Account which shall be credited with any over-recovery resulting from the operation of the Company's PGA procedure or debited for any under-recovery resulting from the same.

Such over- or under-recovery shall be determined by a monthly comparison of the actual (as billed) cost of gas as shown on the books and records of the Company, inclusive of refunds, take or pay costs, gas supply realignment costs, and penalties, to the cost recovery recorded on the books and records of the Company.

The cost recovery shall be calculated by multiplying the PGA class Ccf sales by the applicable effective revenue components [the RPGA factor and the ACA factor] related to the cost of gas purchased.

For each twelve-month billing period ended with the August revenue month, such over- or under-recovery described above, including the balance from the previous year, shall be accumulated to produce a cumulative balance of over-recovered or under-recovered costs. The "Actual Cost Adjustment" (ACA) factor shall be computed by dividing the cumulative balance of the over-recoveries or under-recoveries by the estimated volumes of sales during the subsequent twelve-month period. This ACA factor shall be rounded to the nearest \$0.0001 per Ccf and applied to billings, beginning in the revenue month in which the Winter PGA filing is effective. This ACA factor shall remain in effect until superseded by a subsequent ACA factor calculated according to this provision or as approved by the Commission. The Company shall file any revised ACA factor in the same manner as all other adjustments performed in the PGA clause.

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FORM NO. 13 P.S.C. MO

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Southern Missouri Gas Company, L.P.

Name of Issuing Corporation

For All Communities and Rural Areas
Receiving Natural Gas Service
Community, Town or City

PURCHASED GAS ADJUSTMENT CLAUSE (cont.)

IV. REFUNDS:

Any refunds the Company receives in connection with natural gas services purchased, including any interest included in such refunds, will be refunded to the Company's applicable customers unless otherwise ordered by the Commission. Such refunds shall be credited to the ACA account in the month received and shall receive interest as part of the overall ACA interest calculation.

In the event the Commission orders that a refund be accounted for separately and not credited directly to the ACA account, then the Company shall file with the Commission and propose to make effective, the appropriate PGA Statement reflecting the decrease and an associated statement showing the computation of the refund adjustment in the same manner as all other adjustments performed in the PGA clause. The length of the refund period shall generally be twelve months. The Refund accounts, if any, shall be reviewed concurrently with the ACA factor audit.

For such refunds accounted for separately, the Company will add interest to the refunds received from its suppliers applicable to (1) the amount of the refund from the date of its receipt by the Company to the beginning date of the refund adjustment period, and (2) the average amount of the total refund estimated to be outstanding during the refund adjustment period.

The refund interest rate shall be equal to the prime bank lending rate as published in *The Wall Street Journal* on the first business day of the following month less two percentage points. The refund interest rate shall be applied to the refund balance at the end of each month. The refund interest rate shall be used to make the initial estimate of the interest that will be included in each refund distribution and shall be equal to the refund interest rate in effect on the day of receipt of the supplier refund.

After the refunding period is completed, the difference between the refunds received from the Company's suppliers (including the Company's own additional interest) and the amounts refunded to the respective customer groups shall be determined. Such difference shall be retained in the refund accounts until such time as a subsequent refund or be transferred to the ACA over- or under-recovery with Commission approval.

The Company shall file refund factors in the same manner as all other adjustments made to this clause.

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Southern Missouri Gas Company, L.P.
Name of Issuing Corporation

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PURCHASED GAS ADJUSTMENT CLAUSE (cont.)

V. Released Capacity Revenues

The Company shall credit gas cost for revenues generated from the release (sale) of transportation capacity. Such capacity release shall comply with the procedures of the Federal Energy Regulatory Commission and shall be recallable by the Company. Such revenues will be incorporated in determining the ACA factor.

VI. Off-System Sales

Authorization - The Company is authorized by the Commission to make off-system sales (OFF-Sales), as defined herein, at negotiated rates without prior approval by the Commission.

Off-System Revenues - The Company shall credit its ACA accounts for 100% of off-system sales net revenues as defined and accounted for below.

1. Definitions. Off-system sales (OFF-Sales) are herein defined as any Company sale of gas, or gas bundled with pipeline transportation, made to parties other than the Company's transportation customers or their agents. Such sales may occur at any receipt point, pool, or delivery point on the Southern Star Pipeline except for the Company's interconnect with Southern Star. Off-system sales shall not be made to any affiliate of the Company and none of the provisions of this section shall apply to any Company non-regulated marketing affiliate. Any OFF-Sales that occur during the winter months and includes company firm transportation shall include language that provides for such transportation to be recallable.

Off-system Sale Revenues (OFF-Revenues) are the actual revenues received by the Company from OFF-Sales.

Cost of Gas Supply (CGS) is the commodity cost related to the purchase of gas supply, exclusive of transportation costs.

Off-system Cost of Gas Supply (OFF-CGS) is the commodity cost related to the purchase of gas supply, exclusive of transportation costs, for OFF-Sales. The OFF-CGS is equal to the highest CGS from the CGS-Schedule (as defined below), unless a lower CGS is documented and supported in accordance with the provisions of Section 3 of this rule. The total OFF-CGS to be booked as a cost to the OFF-Sales accounts shall be equal to the sum of the multiplication of the gas cost of each individual transaction by the associated quantities actually sold grossed up for fuel retained by the pipeline.

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Southern Missouri Gas Company, L.P.
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PURCHASED GAS ADJUSTMENT CLAUSE (cont.)

Off-system Cost of Transportation (OFF-COT) is the incremental cost of transportation related to the delivery of the gas supply for OFF-Sales to the point of delivery. The OFF-COT shall include all commodity related transportation costs, including fuel, associated with the OFF-Sales. OFF-COT shall not include non-commodity related LDC system supply transportation costs.

Off-system Net Revenue (OFF- Net Revenue) is equal to OFF-Revenues minus OFF-CGS and OFF-COT.

2. Accounting. The Company shall maintain separate revenue and expense accounts to record its OFF-Sales transactions, which accounts shall be audited and subject to modification by the Commission at the same time the Company's other gas costs for system supply purchases are reviewed pursuant to the ACA process. Each OFF-Sale transaction shall be accounted for and analyzed separately.
3. Record Keeping. For the first day of each month and for each day where a subsequent change in the cost of gas supplies or in the cost of delivery thereafter occurs, the Company shall construct and retain a CGS-Schedule. This CGS-Schedule shall provide contract volumes, scheduled volumes, available volumes, unit commodity cost of gas, and unit transportation costs associated with the delivery of gas to the Company's city gate for all of the Company's gas supply contracts. The CGS-Schedule will also provide information relating to all OFF-Sales. This information will include the location of the sale, volume sold, sale price, total revenue from the sale, the unit commodity cost of gas used for the sale, any other costs or cost reductions associated with the sale and the total costs associated with the sale.

To the extent that the CGS-Schedule costs associated with OFF-Sales are different than the costs accrued for each transaction, the Company will prepare and retain a complete explanation and related records regarding such difference. If the CGS associated with the volumes of gas distributed to the Company's system sales customers is at a higher cost than the OFF-CGS for OFF-Sales, the Company shall document all reasons for such occurrences and retain the documentation explaining such costing for the annual reconciliation. In the event the OFF-CGS assigned to the OFF-Sale is less than the highest price, as described herein, nothing in this tariff shall preclude the review of such transaction or impair a party's right to propose an adjustment in connection with such transaction in the relevant ACA proceeding.

4. Limitation on Sales. The Company's OFF-Sales shall be made on an as-available basis. The Company shall make no OFF-Sales where a negative margin is known to result.

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Southern Missouri Gas Company, L.P.
Name of Issuing Corporation

All Communities and Rural Areas
For Receiving Natural Gas Service
Community, Town or City

PURCHASED GAS ADJUSTMENT (cont.)

As provided in this Purchased Gas Adjustment Clause, the following adjustment(s) per Ccf will be made to the basic natural gas service schedules:

<u>Schedule</u>	<u>Purchased Gas Cost</u>	<u>Actual Cost Adjustment</u>	<u>Refunds</u>	<u>Unscheduled Filing Adjustment (UFA)</u>	<u>TOP Factor</u>	<u>Total PGA</u>
GS	.7400	.0500	0		0	.7900
LVS	.7400	.0500	0		0	.7900
OGS	.7400	.0500	0		0	.7900
LGS	.7400	.0500	0		0	.7900

The TOP Factor, as provided in Sheet No. 6, shall also apply to all Ccfs delivered to transportation customers.

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