BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Southern Missouri Gas Company LP's Purchased Gas Adjustment (PGA) Factors to be Reviewed in its 2005-2006 Actual Cost Adjustment.	)))	Case No. GR-2006-0352

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission ("Staff") and for its Recommendation in this case states:

1. Case No. GR-2006-0352, under which this change was filed, was established to track the Company's PGA factors to be reviewed in its 2005-2006 Actual Cost Adjustment (ACA) filing.

2. Staff has reviewed information submitted by the Company in this case and has, among other things, made recommendations concerning the Company's hedging activities and the Company's reliability planning. Please see the attached Staff Recommendation.

WHEREFORE, the Staff recommends that the Commission order SMGC to respond to Staff's recommendations and requests the Commission adopt Staff's suggestions and order SMGC to comply with Staff's recommendations in this case.

Respectfully submitted,

/s/ Lera L. Shemwell
Lera L. Shemwell
Senior Counsel
Missouri Bar No. 43792

Attorney for the Staff of the
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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, hand-delivered or transmitted by facsimile or electronic mail to all counsel of record this 8th day of June, 2007.

/s/ Lera L. Shemwell__________

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Southern Missouri Natural Gas Purchased Gas Adjustment Factors to be Reviewed.	)))	Case No. GR-2006-0352

AFFIDAVIT OF DAVID M. SOMMERER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

David M. Sommerer, being of lawful age, on his oath states: that as a Utility Regulatory Manager in the Procurement Analysis Department, of the Utility Services Division, he has participated in the preparation of the foregoing report, consisting of 11 pages to be presented in the above case, that he has verified that the following Staff Memorandum was prepared by himself and Staff of the Commission that have knowledge of the matters set forth as described below; that he has verified with each of the Staff members listed below that the matters set forth in the Staff Memorandum are true and correct to the best of his knowledge and belief,

David M. Sommerer:	Billed Revenues and Actual Gas Costs
Lesa A. Jenkins:	Reliability Analysis
Kwang Y. Choe:	Hedging

that he has knowledge of the matters set forth in such report and that such matters are true to the best of his knowledge and belief.

David M. Sommerer

Subscribed and sworn to before me this 8th day of June, 2007.

Notary Public

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI

ASHLEY M. HARRISON
My Commission Expires
August 31, 2010
Cole County
Commission #06898978

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GR-2006-0352, Southern Missouri Natural Gas

FROM: David M. Sommerer, Manager - Procurement Analysis Department
Lesa A. Jenkins, P.E., Regulatory Engineer - Procurement Analysis Department
Kwang Choe, Ph.D., Regulatory Economist - Procurement Analysis Department

/s/ David M. Sommerer 06/08/2007	/s/ Lera Shemwell 06/08/2008
Project Coordinator/Date	Office of General Counsel/Date

SUBJECT: Staff's Recommendation for Southern Missouri Natural Gas's 2005-2006 Actual Cost Adjustment Filing

DATE: June 08, 2007

The Procurement Analysis Department (Staff) has reviewed Southern Missouri Natural Gas's (SMNG or Company) 2005-2006 Actual Cost Adjustment (ACA) filing. This filing was made on October 6, 2006. A substitute Tariff Sheet No. 27 was filed on October 27, 2006. These filings were docketed as Case No. GR-2006-0352. The 2005-2006 ACA filing rates became effective on November 1, 2006. Southern Star Central Gas Pipeline (SSCGP) serves SMNG which, during the 2005-2006 ACA period, provided natural gas to a maximum of 7,834 sales customers in the southern portion of the state including communities in Greene, Webster, Wright, Howell, Douglas and Texas counties.

SMNG changed ownership on May 27, 2005, about three months before Hurricane Katrina and the September 1, 2005, start of the 2005-2006 ACA period. Sendero SMGC Limited Acquisition Company, L.L.C., purchased 98% of the partnership interests of DTE Enterprises, Inc., and DTE Ozark, Inc. The remaining 2% of the DTE partnership interests was purchased by a Sendero affiliate, Sendero SMGC GP Acquisition Company. The change in ownership brought changes in key personnel, starting with a new General Manager, Jim Trent. The Gas Supply Manager, William Walker, remained long enough to be responsible for the gas supply planning and purchasing for the winter of the 2005-2006 ACA period. Mr. Walker resigned in February 2006. Mr. Trent resigned in May 2006 after about a year as General Manager. Michael Lumby, formerly the Customer Service Manager, was promoted in February 2006 to the position of Manager of Gas Supply. In May 2006, Mr. Lumby became General Manager, while retaining responsibility for Gas Supply. Mr. Lumby reports to Randal T. Maffett, who is the Managing Partner, President and C.E.O of Sendero Capital Partners, Inc. in Kingwood, Texas.

The Company's rising cost of gas during the 2005-2006 ACA period was a concern of the Commission from the time the ACA period began. On September 15, 2005, the month after Hurricane Katrina, SMNG's annual filing proposed to increase the total PGA/ACA rate from \$0.7900/Ccf to \$1.3081/Ccf (Case No. GR-2005-0279). Due to the magnitude of the increase, the Commission ordered and held an evidentiary hearing before approving, on an interim basis, subject to refund pending the ACA audit.

On October 21, 2005, the Office of Public Counsel filed a complaint (Case No. GC-2006-0180) against SMNG alleging, among other things, that the Company failed to comply with the Commission's hedging rule. On April 11, 2006, the Commission approved a unanimous stipulation and agreement with conditions that were designed to assure the Company regularly communicates with the Commission, the Staff and the Office of Public Counsel concerning the status of its gas purchasing plans, and type and extent of the hedging mechanisms that it is using, along with minimum hedge requirements. The following table shows the changes in gas costs and PGA/ACA revenues over the last three ACA periods.

Description	**ACA 2005-2006**	**% Change**	**ACA 2004-2005**	**% Change**	**ACA 2003-2004**
Begin ACA Balance	$232,412		$417,867		$669,009
Cost of Gas	$6,709,644	+48.8%	$4,508,788	+12.9%	$3,992,557
Cost of Transportation	$1,134,650	-0.9%	$1,144,567	+8.0%	$1,059,398
Revenues	($8,078,415)	+39.2%	($5,805,417)	+10.7%	($5,243,504)
Other	$0		($33,393)		($59,593)
End ACA Balance	$14,126		$232,412		$417,867

Related total PGA/ACA rates for the same period are shown below:

Effective Date	**Purchased Gas Cost (PGA)**	**Actual Cost Adjustment (ACA)**	**Total PGA/ACA Rate**
11/1/03	.6650	.0766	.7416
10/1/04	.7800	.0500	.8300
1/1/05	.8700	.0500	.9200
3/4/05	.7400	.0500	.7900
10/1/05	1.2770	.0311	1.3081
4/1/06	.9649	.0311	.9960
11/1/06	.9500	.0000	.9500

Staff's review consisted of an audit and evaluation of the billed revenues and actual gas costs for the period of September 1, 2005, to August 31, 2006, included in the Company's computation of the ACA rate. A comparison of billed revenue recovery with actual gas costs will show the Company has either over-recovered or under-recovered the ACA balance. Staff also performed an examination of SMNG's gas purchasing practices to determine the prudence of the Company's purchasing decisions. In performing its examination, Staff conducted a reliability analysis including: 1) a review of information required to be submitted in response to the reliability recommendations in the 2004-2005 Staff ACA recommendation, Case No. GR-2005-0279, 2) estimated peak day requirements and; 3) the capacity levels needed to meet these requirements. Staff also conducted a hedging review to determine the reasonableness of the Company's hedging practices for this ACA period.

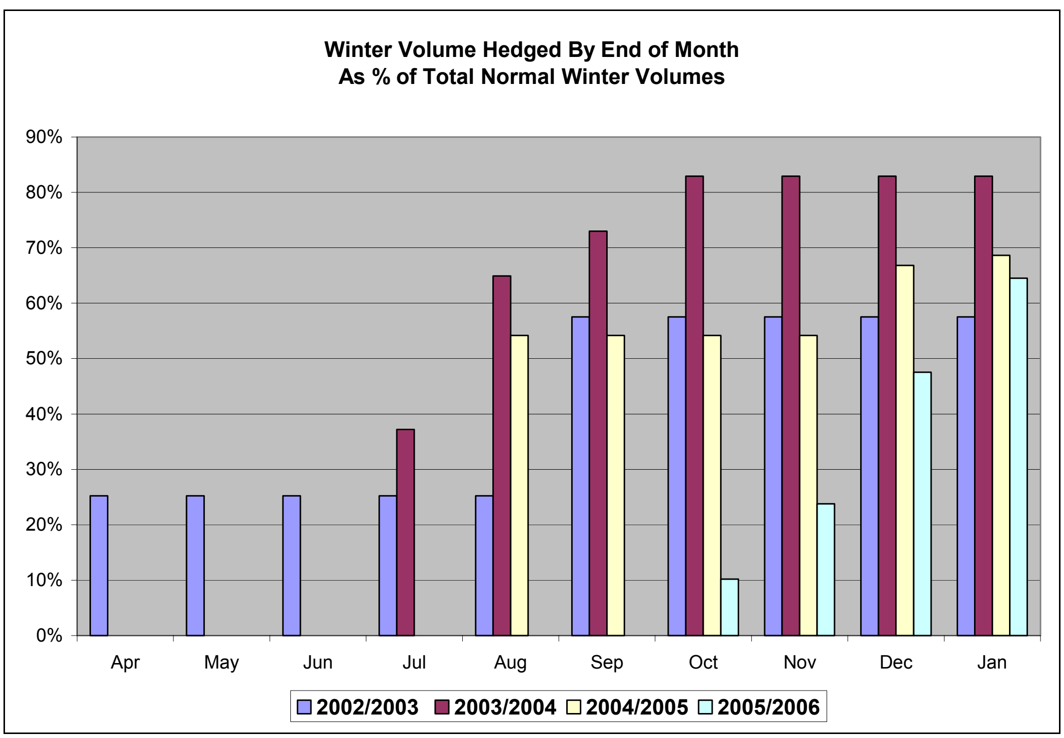
REFUNDS

The Company reported no pipeline refunds received, according to the schedules supporting the Company's annual PGA/ACA filing on October 6, 2006. However, the Company's response to Data Request No. 0024 stated, "The company received a refund of $208.75 in December 2005." The Staff verified that the Company had received and deposited $208.75 from SSCGP, but had not included it in the ACA computations. Therefore, the Staff recommends that the Company's reported under-recovered ACA balance should be reduced by $209.

HEDGING

The Staff reviewed SMNG's hedging practice for the winter months, November 2005 through March 2006. For this period, SMNG did not follow its past practice of hedging more than 50% of its normal winter natural gas requirements.

In the previous three ACA periods, 2002-2003, 2003-2004, 2004-2005, SMNG hedged 58%, 83%, and 54%, respectively, of normal winter (November through March) requirements with fixed price purchases by end of October for each year, meaning the total natural gas commodity prices were fixed for those percentages of normal requirements by end of October 2002, 2003, and 2004, respectively (See the following chart).



SMNG deviated from this practice of fixing the gas prices for the winter months, November 2005 through March 2006, during the 2005-2006 ACA period. Instead, SMNG utilized a basis differential to fix only the discount off of the NYMEX futures prices for the winter months. A basis differential is the difference in natural gas price from one delivery location to another. SMNG fixed the basis differential two separate times, one at NYMEX minus 59 cents on July 26, 2005, and another at NYMEX minus 98.5 cents on September 2, 2005.

At this point, it is important to note that although SMNG locked in the basis differentials on July 26, 2005, and September 2, 2005, respectively, the total natural gas commodity prices were not yet fixed. In other words, SMNG fixed the basis differentials but decided not to apply the discounts to the NYMEX futures prices on July 26, 2005, and September 2, 2005. SMNG says that since the NYMEX futures prices were at an all time high when the Company fixed the basis differentials, they decided to wait before applying the fixed discounts to the NYMEX futures prices, which would have fixed the total natural gas commodity prices. SMNG's intention was apparently to actually trigger (lock in) the NYMEX fixed price portion of the deal when the NYMEX futures prices became more favorable later on. Unfortunately, the NYMEX futures prices continued to rise throughout the summer and fall of 2005 amid one of the most devastating U.S. Gulf hurricane seasons and for much of the rest of the year. The Company eventually started triggering the NYMEX fixed price part of gas costs on October 27, 2005, and continued until early January, 2006. Only when SMNG actually fixed the NYMEX part of gas supply costs and applied the previously triggered basis discounts to the NYMEX futures prices, were the total gas prices fixed.

The hypothetical example below illustrates how the various triggering elements of a gas contract work:

> A Local Distribution Company (LDC) that buys gas from the Mid-Continent at Southern Star Central would expect to pay a gas cost that is less than NYMEX. NYMEX is a gulf-coast-based price but is a common price reference. Therefore, when negotiating with a supplier, the LDC would seek a "discount" or basis differential from NYMEX to represent a Southern Star/Mid-Continent based price.
>
> For any given winter month, the NYMEX price itself will fluctuate, and the final closing price will not be known until just before the month of delivery. An LDC could negotiate for the opportunity to fix both the discount (basis) to NYMEX and the NYMEX price itself. These opportunities to "fix the price" are known as "triggers". If the LDC assumes that the Mid-Continent discount or basis is favorable in relationship to NYMEX, it might "pull the trigger" for the basis discount. At a later date (or earlier date), it might view the NYMEX price to be a favorable price to lock-in that part of the deal, and "pull the trigger" to fix the NYMEX price.

> Using hypothetical numbers an LDC might view a $1.00/MMBtu as a good discount for Mid-Continent (Southern Star Central) gas. If it locks in “basis”, the LDC is guaranteed of getting a discount of $1.00/MMBtu below the eventual NYMEX price, whatever that price might be. Whether or not the $1.00/MMbtu turns out to be a good deal or not will depended upon where Southern Star Central first of the month index prices settle in relation to the closing NYMEX price.
>
> For the NYMEX part of the transaction, an LDC could choose to “trigger” or lock-in at any time prior to the expiration of the contract. If December of 2005 gas were trading at $10.00/MMBtu in July of 2005, an LDC could fix that part of gas costs. If the basis part of the deal had already been triggered at a discount of $1.00/MMBtu to NYMEX, then the entire cost of the gas commodity would be known with certainty in July of 2005. The price would be $9.00/MMBtu.

In essence, Southern Missouri Natural Gas locked in, or triggered, basis discounts in the summer of 2005, but waited to lock in the much larger part of gas cost - the NYMEX price - until the winter had almost begun in late October 2005 and in later winter months through the beginning of January 2006.

The Staff also reviewed SMNG’s Gas Supply Plan dated August 26, 2005. In it, the Company’s goal is to secure 60-75% of winter heating-season gas supply at fixed prices. This SMNG plan is consistent with its hedging practices for the prior three winters. However, there is no indication in the plan that the Company would modify its past practices and utilize a basis differential as the **primary** means to meet the goal. Furthermore, when the Company took the action to utilize the basis differential during the summer of 2005, there was no written analysis or document on which to base the Company’s decision and also to help the Staff understand the circumstances under which the Company undertook such departure from its traditional hedging practice of fixing the total natural gas commodity prices for 60-75% of its winter season gas supply. The Company simply took the market view that the natural gas prices were historically high during the summer of 2005 and, thus, it believed that the prices would go down and, based on that belief, waited for the market to fall. The market did not fall until the end of 2005.

SMNG could have reasonably avoided the higher market prices during the summer and fall of 2005 by following the Company’s traditional hedging practice of fixing the total natural gas commodity prices for at least 50% of winter normal requirements by October 2005 and to follow its own Gas Supply Plan for 2005/2006 to secure 60-75% of winter heating-season gas supply at fixed prices. Furthermore, the Staff has a serious concern that the Company was deficient in maintaining sufficient documentation to explain and justify why the course of action the Company took was reasonable, especially when the course of action was quite a departure from its past practice. In the Staff’s view, it is paramount for the Company to maintain such documents and the Company simply failed to do so.

The Staff compared SMNG's actual gas costs by triggering the basis differentials with gas costs based on three other approaches which SMNG could reasonably have taken for the winter months November 2005 through March 2006.

- Scenario I considers the costs to customers if, rather than simply locking in the basis on 7/26/05 and 9/2/05, the price is also locked in for these volumes of natural gas. In this scenario, SMNG applies the basis to the prevailing NYMEX futures prices on 7/26/05 and 9/2/05, thus, fixing the total natural gas commodity prices. This is consistent with past practice of locking in most of its winter hedges prior to October 1^{st}.
- Scenario II considers the costs to customers if 50% of the normal winter volumes have the price fixed as well as the basis differential on 7/26/05 and 9/2/05. It is similar to Scenario I, but the volumes hedged are less.
- Scenario III considers the cost to customers if 54% of the normal winter volumes have the prices fixed on 8/11/05 and 8/24/05 and accepting the SMNG basis differential locked in on 7/26/05 and 9/2/05. This is consistent with the volumes and dates of fixed prices that SMNG hedged for the 2004/2005 winter.

A summary of the cost to customers of these three scenarios compared to the actual costs is summarized below:

	Cost To Customers	Damages	Annual Cost Per Customer
Actual	$4,068,270		
Scenario I	$3,689,800	$378,470	$48.52
Scenario II	$3,804,153	$264,117	$33.86
Scenario II	$3,847,817	$220,453	$28.26

Staff believes that any of these three scenarios represent a reasonable level of hedging for SMNG to have undertaken for the 2005-2006 ACA period and all three are consistent with its past practices. Therefore a reasonable adjustment is in the range of $220,453 to $378,470, which is approximately $28.26 to $48.52 per customer for the 12-month ACA period. Therefore, the Staff recommends an adjustment to reduce gas costs by $220,453 to $378,470 for this ACA period.

RELIABILITY ANALYSIS AND GAS SUPPLY PLANNING

The Company is responsible for conducting reasonable long-range supply planning and the decisions resulting from that planning. One purpose of the ACA process is to examine the reliability of the LDCs' gas supply, transportation, and storage capabilities. For this analysis, Staff reviews the LDCs' plans and decisions regarding estimated peak day requirements and the capacity levels to meet those requirements, peak day reserve margin and the rationale for this reserve margin, and natural gas supply plans for various weather conditions.

Staff has the following comments and concerns regarding the Company's reliability and gas supply planning information:

1. Estimates of Peak Day Requirements and Monthly Requirements:

   a. Peak Day Estimate and Monthly Estimates for Residential Service (RS), General Service (GS) and Optional General Service (OG or OGS) Customers:

      In the prior ACA, GR-2005-0279, Staff commented on the SMNG estimation and the lack of supporting documentation. SMNG provided additional documentation for this ACA. However, some of the data used in the calculation of the baseload factors and heatload factors would not have been known when SMNG was planning for this ACA period of September 2005 through August 2006. Thus, the planning occurred after the fact. For example, SMNG used the actual December 2005 volumes in the calculation of the heatload factor for December 2005. The December 2005 volumes would not have been known until the end of that month. The ACA period for SMNG began September 2005. Because SMNG had made most of its winter supply decisions prior to January 2006, this planning of winter load would not be used until planning for the 2006/2007 ACA. In a 2/2/07 conference call, SMNG explained that the planning was in response to our discussion and comments in the 2004/2005 ACA, GR-2005-0279.

      The baseload and heatload factors used to calculate the peak day estimate for the RS, OG, and GS customers do not match any of the supporting data provided by SMNG. In our February 02, 2007, conference call, SMNG explained that this is the same issue as in the 2004/2005 ACA where the peak day estimate was taken from prior workpapers and the support for those numbers could not be found. Staff observes that on a moving forward basis, SMNG is improving its documentation supporting its estimates.

   b. Peak Day and Monthly Estimates for Large General Service (LGS) and Large Volume Service (LVS) Customers:

      For LGS and LVS, SMNG states that it estimates each customer individually based on several years actual history, adjusted for any known factors (plant downtime, extra overtime projections, etc.). Upon examination of the SMNG information in its response to DR No. 0067, SMNG does not follow this stated methodology for its peak day planning.

      The Company provided projected peak usage for fourteen customers. This analysis compares volumes for a cold day in January 2005 to total month volumes. The volumes are for all customers, not just the LGS and LVS customers. SMNG then makes the assumption that LGS and LVS customers will use natural gas in the same ratio for a peak day. There is no SMNG data to supports such a claim. Four of these customers have daily metering and these four customers make up 60% of the large volume load for January 2005. Despite the ease of collecting the data, SMNG has made no attempts to analyze the daily data for these four customers to determine a reasonable estimate of peak day requirements, as alluded to in the SMNG DR No. 0069 response. The peak day usage estimated for the LGS and LVS customers is 26% less than the estimate provided in the prior ACA.

Staff recommended in the past four ACA reviews, 2001/2002 ACA, Case No. GR-2002-440, the 2002/2003 ACA, Case No. GR-2004-0193, the 2003/2004 ACA, Case No. GR-2005-0064, and the 2004/2005 ACA, Case No. GR-2005-0279, that SMNG provide additional information for the peak day estimate for LGS and LVS customers. Staff again recommends, for the fifth time, that SMNG continue to make attempts to provide more data for large general and large volume customers for estimating peak day requirements. As discussed with SMNG on February 2, 2007, for the four customers with daily metering, SMNG can and should evaluate the daily data to obtain improved estimates.

2. SMNG Does Not Adequately Explain Its Planning for Capacity Levels for Future ACA periods.

a. Market Area Capacity

The 2004/2005 review by SMNG showed a reserve margin of negative 5.5% in 2004/2005 and negative 7.6% for 2005/2006.

The transportation contract term expires in April 2005, and is renewed for 5-year terms. SMNG informed Staff in 2005 that it was pursuing additional pipeline capacity (emails from Scott Klemm dated 2/22/05 and 4/6/05). SMNG initially responded to a Southern Star open season for the Ozark Trails Expansion Project that would impact southwest Missouri, stating that it was interested in 5,000 Dth/day. This is an increase in capacity of 50% for SMNG, much in excess of what the Company needed for a peak cold day. According to SMNG's 2004/2005 planning, it would go from having a shortage of capacity for peak day planning of about 5.5% in January 2005 to an excess capacity of 35% in January 2007. According to SMNG's 2005/2006 planning, it will go from having just sufficient capacity for peak day planning to an excess capacity of 32% in January 2007.

SMNG's Gas Supply Weekly Activity Report for February 17 through February 24, 2006, states that it executed the Ozark Trails Expansion Precedent Agreement with Southern Star effective December 1, 2006. It also states, "This should satisfy any peak day demand concerns that the MPSC has had, along with providing opportunity for abundant growth – on our existing system and in any new areas (Houston, Lebanon, Mountain View, etc.)" (DR No. 0085). The Company previously explained that interest in the Southern Star open season appeared to be greater than the capacity that Southern Star was proposing to make available. Thus, the Company stated that it decided to be aggressive with its initial response of 5,000 because it believed the awards would be pro-rated downward and it believed there would be another opportunity to modify the volumes. The Company states that it agrees that a 5,000 increase in overall capacity seems high but that it is a preliminary number that can and probably will be modified before a binding bid would be made. (4/6/05 email)

SMNG increases its capacity by 5,000 MMBtu/day from 10,100 MMBtu/day in the market zone to 15,100 MMBtu/day. This is a substantial increase in capacity beginning in December 2006. SMNG's support for this substantial increase will be reviewed by Staff in the 2006/2007 ACA, the first ACA impacted by the increased capacity. Staff will review SMNG's decisions for increased capacity in light of SMNG's evaluation of peak day requirements and the capacity options available to it and the associated cost to customers.

SMNG's assumptions, capacity options, and decisions for its capacity increase must be documented, including supporting workpapers.

b. Upstream Capacity

For the Company's analysis of required upstream transportation capacity (DR No. 0072), it refers to the DR No. 0067 in which calculates load requirements for a peak day and normal monthly requirements. There is no separate analysis of production area capacity requirements. If the supplies can be accessed in both the production and market zones, a peak day estimate does not explain what capacity is needed in the production zone. Currently the production zone and market area capacity are nearly the same. However, beginning in December 2006 this will change. Thus, an evaluation of upstream capacity requirements is more critical beginning with the 2006/2007 ACA.

SMNG's assumptions and decisions for its peak day planning must be documented, including supporting workpapers.

3. Company Gas Supply Plans for Cold Weather

In the prior three ACA periods (2004/2005 ACA, Case No. GR-2005-0279, 2003/2004 ACA, Case No. GR-2005-0064, 2002/2003 ACA, Case No. GR-2004-0193), Staff expressed concerns regarding the SMNG lack of firm supply contacts for cold weather. The Company previously utilized limited contracts for monthly supply and spot purchases to address cold weather requirements. Staff was concerned that there

was no assurance that spot gas will be available on cold days and it had no firm swing contracts.
For the 2005/2006 ACA, SMNG acquired a peaking contract for November 2005 through March 2006 in which it could call up to 5,000 MMBtu/day for any 10 days of the term. There are no reservation charges for the peaking contract; it is priced at Gas Daily plus $0.02/MMBtu. The peaking contract provides additional assurances for cold weather supply for SMNG. However, additional study is needed by SMNG to determine whether a 10-day peaking contract adequately addresses requirements for a cold winter.

4. Company Documentation of Gas Supply Decisions

For its natural gas supply planning and procedures, SMNG refers to its handwritten narratives detailing the gas supply transactions (DR No. 0043). Beginning in February 2006, the notes in the DR No. 0043 response contain less detail than in prior months of the ACA and do not always adequately document what transactions were selected and the reasoning for the selection. Staff recommends that SMNG improve its documentation for gas purchasing decisions and the actual transaction selected.

SUMMARY

The Staff has addressed the following concerns regarding Case No. GR-2006-0352 for Southern Missouri Natural Gas:

1. Staff reviewed and evaluated the billed revenues and actual gas costs for the period of September 1, 2005, to August 31, 2006, included in the Company's computation of the ACA rate and ACA account balance.

2. Staff believes that the Company's "hedging" practice of setting only basis differentials was unreasonable and failed to adequately protect customers from market price risks. Therefore, the Staff recommends an adjustment to reduce gas costs by $220,453 to $378,470 for this ACA period.

3. Staff is proposing no dollar adjustments related to reliability and gas supply planning. However, Staff has expressed concerns regarding SMNG's planning and documentation. SMNG should address the Staff's concerns in the reliability analysis and gas supply planning section of this recommendation.

RECOMMENDATIONS

The Staff recommends that Southern Missouri Natural Gas:

1. Adjust the ACA account balance in its next ACA filing to reflect the following Staff adjustments and to reflect the (over)/under-recovered ACA balance in the "Staff Recommended" column of the following table:

Using High End of Staff's Recommended Adjustment for Hedging			
Description	**Company's Ending Balances Per Filing**	**Staff Adjustments**	**Staff Recommended Ending Balances**
Prior ACA Balance 8/31/05	232,412		232,412
Cost of Gas	6,709,644	(378,470)	6,331,174
Cost of Transportation	1,134,650		1,134,650
Revenues	(8,078,415)		(8,078,415)
Pipeline Refunds Received	0	(209)	(209)
Interest on Under-recovered ACA Balance	15,835		15,835
Total ACA Balance 8/31/06	14,126	(378,679)	(364,553)

Using Low End of Staff's Recommended Adjustment for Hedging			
Description	**Company's Ending Balances Per Filing**	**Staff Adjustments**	**Staff Recommended Ending Balances**
Prior ACA Balance 8/31/05	232,412		232,412
Cost of Gas	6,709,644	(220,453)	6,489,191
Cost of Transportation	1,134,650		1,134,650
Revenues	(8,078,415)		(8,078,415)
Pipeline Refunds Received	0	(209)	(209)
Interest on Under-recovered ACA Balance	15,835		15,835
Total ACA Balance 8/31/06	14,126	(220,662)	(206,536)

2. Maintain a current hedging plan, evaluate the placement of hedges earlier and over a longer time framer, continue to evaluate the possibility of further diversifying its gas supply portfolios including a gas supply planning horizon of multiple years and evaluation of firm storage opportunities, and keep abreast of the market developments to help its gas procurement decision-making. The current hedging plan must include detailed plans to provide proper documentation of gas purchasing decisions at the time that such decisions are made.

3. Respond to the concerns expressed by Staff in the Reliability Analysis and Gas Supply Planning section within 30 days with a detailed plan of action to address these issues.

4. File a written response to the above recommendations within 30 days.