

**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)	Case No. GR-2007-0484
Reviewed in its 2006-2007 Actual Cost Adjustment.)	

STAFF RECOMMENDATION

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

1. On October 11, 2007, Southern Missouri Natural Gas Company, L.P. (SMGC or Company) d/b/a Southern Missouri Natural Gas Company of Mountain Grove, Missouri, filed a tariff sheet with a proposed effective date of November 1, 2007. The tariff sheet was filed to reflect changes in SMGC's Purchased Gas Adjustment (PGA) and Actual Cost Adjustment (ACA) factors as the result of estimated changes in the cost of natural gas for the winter season.

2. The winter season includes the months of November through March.

3. Attached at Appendix A is the Procurement Analysis Department's (Staff's) recommendations in this case.

4. Staff reviewed and evaluated SMNG's billed revenues for natural gas and SMNG's actual gas costs for the period of September 1, 2006, to August 31, 2007 as well as SMNG's gas purchasing practices to determine the prudence of the Company's purchasing and operating decisions.

5. Staff also conducted a reliability analysis of SMNG's estimated peak-day requirements,¹ the pipeline capacity levels needed to meet those requirements. A part of its

¹ Peak day requirements are the maximum expected customer usage of natural gas on a single day.

review Staff considered the reasonableness of Company's peak day reserve margin and its reasons for this reserve margin; and reviewed normal, warm, and cold weather requirements.

6. On a going forward basis, beginning with the 2008/2009 ACA, Staff recommends that SMNG re-evaluate its planning for normal, warm and cold weather and maintain sufficient documentation to support its estimates.

7. Staff also reviewed SMNG's hedging for the period to determine the reasonableness of the Company's hedging plans. Staff recommends the company continue to maintain a current hedging plan, to evaluate the possibility of further diversifying its gas supply portfolios, including a gas supply planning horizon of multiple years, and keep abreast of market developments in order to make prudent gas procurement decisions.

WHEREFORE Staff recommends that Southern Missouri Natural Gas:

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

Description (+) Under-recovery (-) Over-recovery	Company Ending Balances Per Filing	Staff Adjustments	Staff Recommended Ending Balances
Prior ACA Balance 8/31/06	\$14,126 (A)	\$0	\$14,126 (A)
Cost of Gas	\$5,826,023	\$0	\$5,826,023
Cost of Transportation	\$1,331,126	\$0	\$1,331,126
Revenues	(\$6,949,789)	\$0	(\$6,949,789)
ACA Approach for Interest Calculation	\$831	\$0	\$831
Total ACA Balance 8/31/07	\$222,317	\$0	\$222,317

2. Maintain a current hedging plan and 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 within 30 days to the concerns expressed by Staff in the Reliability Analyses and Gas Supply Planning section related to conflicting estimates of monthly requirements.

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

Respectfully submitted,

/s/ Lera L. Shemwell

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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 14th day of August 2008.

/s/ Lera L. Shemwell
