

MEMORANDUM

To: Missouri Public Service Commission Official Case File, Case No. GE-2006-0189,
Tariff File No. JG-2006- 0356, Southern Missouri Gas Company, L.P.

From: Michael Ensrud, Energy Department – Tariffs/Rate Design

/s/ Tom Imhoff 12/13/05
Utility Operations Division/Date

/s/ Lera Shemwell 12/13/05
General Counsel's Office/Date

Subject: Staff Recommendation Concerning Tariff Sheets Filed to Re-establish Conversion
Promotion Program

Date: 12/12/2005

On November 1, 2005, Southern Missouri Gas Company, L.P. (SMGC or Company) filed an Application for Variance and proposed tariff sheets seeking a waiver from the Commission's promotional practice rules, CSR 240-14.02 (1) (E), (F) and (H), and to re-establish a conversion promotion that is similar to a Commission-authorized promotion that lapsed on November 15, 2000.

The Commission has approved a similar waiver. October 1, 1994, the Commission issued its Report and Order in Tartan Energy Company d/b/a Southern Missouri Gas Company, L.C., Case No. GA-94-127 granting the Company's predecessor a certificate of convenience and necessity. The Report and Order also stated the following in order to establish a conversion incentive program:

7. That Tartan Energy Company, L.C., d/b/a Southern Missouri Gas Company be and is hereby granted a variance from the promotional practices rule of this Commission to the extent and limits as set forth in the Nonunanimous Stipulation and Agreement and this Report and Order .

8. That Tartan Energy Company, L.C., d/b/a Southern Missouri Energy Company be and is hereby authorized to account for one-half of the allowed \$200.00 maximum per customer conversion incentive program costs above-the-line, and include those costs in rate base, as set forth in the Nonunanimous Stipulation and Agreement and this Report and Order.

The referenced Stipulation and Agreement also contained the following:

9. On January 20, 1994, the Applicant filed in this proceeding a Request for Variance from the provisions of 4 CSR 240-14 .020(1) (E), (F) and (H) with Suggestions in Support. The parties to this Stipulation and Agreement agree that Applicant's Request for Variance should be granted. However, Applicant agrees to book one-half (1/2) of its conversion costs below-the-line, for ratemaking purposes. The parties to this Stipulation and Agreement agree that the remaining one-half (1/2) of the conversion costs associated with the provision of piping or equipment on the customer side of the meter will be treated as a start-up cost and included in rate base for ratemaking purposes .

The initial promotion was for a two (2) year time period, and expired on November 15, 1997. The Commission approved an extension of this program, until November 15, 2000. Without this promotion, a prospective customer was required to pay the full cost of retrofitting or converting facilities beyond the meter in order to receive natural gas service at the applicant's premises. To qualify for the conversion allowance, the work being performed must relate to conversion or installation of facilities, not repair or upgrading of existing natural gas facilities. The work of converting or installing facilities must be on the customer's side of the meter and be performed by a Company representative. Costs above the \$200 threshold are the applicant's responsibility.

On November 1, 2005, the Company filed an Application for Variance, which proposes to re-establish and expand the lapsed conversion incentive program. SMGC's previous ownership let this program lapse, but continued to offer this program. The current ownership of SMGC filed their application to rectify the previous ownership's deficiency or lack of authorization to offer this program. The Company's initial filing proposed to make the conversion incentive program permanent, and expand the program to commercial applicants.

During the course of the Commission's Energy Department Tariffs/Rate Design Staff (Staff) evaluation, numerous discussions were held with the Company and have led to the Company's current tariff filing relating to their application. Staff believes that the variance from Commission rules should be limited to four years (48-months) so that the success of the program and the adequacy of the company's gas supply may be reviewed periodically.

Staff also believes that the Company should file a semi-annual report showing: 1) number of conversions, by class, 2) the conversion costs paid by the stockholders, 3) the conversion costs paid by the general ratepayer, and 4) the conversion costs paid by the specific party whose premises is being converted. Further, the Company should provide proof that the ratepayer base benefits from this promotion. The Staff believes that these reports are essential because of the concern that the Company's supply of gas is delivered on a fully subscribed pipeline with very limited amount for additional capacity. Significant increases in demand could exceed the pipelines ability to transport the supply of gas. The Company projects, however, that 300 annual residential conversions and 150 annual commercial conversions will have a negligible effect on their existing reserve margin. The Company also states: "Our current portfolio of gas suppliers assures the Company that they can meet this additional demand with a comfortable margin."

The Company makes the following representations about its past promotions:

- The "mean" cost for a 2004 conversion was \$172. This includes both those conversions requiring only a conversion kit, and those conversions requiring both re-piping and a conversion kit.
- For the 2001, 2002 and 2003 conversion years, this average cost has not varied by more than \$2 to \$5 from the 2004 level. This includes the use of a conversion kit, or those requiring both re-piping and a conversion kit. In the years 2001, 2002, 2003, 2004 and through October 2005, the Company had 362, 308, 271, 300 and 223 conversions respectively.

- No “typical” conversion has exceeded the \$200. The “typical” conversion can include as much as 40 feet of pipe plus 3 conversion kits.

In summary, the Company seeks approval of the tariff pages, as well as a variance from the provisions of CSR 240-14.02 (1) (E), (F) and (H) and approval of its proposal for re-establishment of the conversion incentive plan.

The Staff has reviewed this filing and believes that it is similar to the Company’s past promotional practices and variance from the rules approved in Case Nos. GA-94-127 and GO-98-172 with the exception noted in the body of this memo. The Staff has verified that the Company has filed its annual report and is not delinquent on any assessment. Staff has reviewed this filing and is not aware of any issue currently pending before the Commission that affects, or is affected by, this filing. However, the following open cases involving this Company are before the Commission at this time:

AX-2005-0363	GC-2006-0182	GE-2006-0156
GC-2006-0180	GR-2005-0279	GW-2006-0110
GX-2006-0181		

Staff therefore recommends the Commission grant the Company’s request for waiver from certain promotional practice rules, approve the program for a period of four (4) years and approve the following tariff sheets, as filed on November 9, 2005, with an effective date of December 23, 2005:

P.S.C. Mo. No. 1 3rd Revised SHEET No. 63, Cancelling 2nd Revised SHEET No. 63
P.S.C. Mo. No. 1 2nd Revised SHEET No. 64, Cancelling 1st Revised SHEET No. 64
P.S.C. Mo. No. 1 2nd Revised SHEET No. 65, Cancelling 1st Revised SHEET No. 65
P.S.C. Mo. No. 1 1st Revised SHEET No. 66, Cancelling Original SHEET No. 66
P.S.C. Mo. No. 1 3rd Revised SHEET No. 71, Cancelling 2nd Revised SHEET No. 71

Copies: Director - Utility Operations Division
 Director - Utility Services Division
 Public Information Administrator
 General Counsel
 Manager - Procurement Analysis Department
 Manager - Energy Department
 James Fisher - Counsel (Southern Missouri Gas Company, L.P.)
 Office of the Public Counsel
 Randy Maffet – President (Sendero)

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Application of Southern)
Missouri Gas Company, L.P. , for a Variance)
from 4 CSR 240-14.020 and Make Permanent its)
Conversion Plan for Natural Gas Hook-ups)

Case No. GE-2006-0189

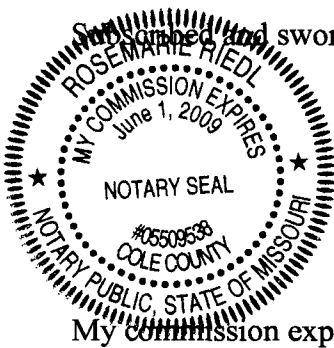
AFFIDAVIT OF MICHAEL JAY ENSRUD

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Michael Jay Ensrud, of lawful age, on oath states: that he has participated in the preparation of the foregoing written memorandum, consisting of three pages to be presented in the above case; that the information in the attached written report were given by Southern Missouri Gas Company, L.P; that he has knowledge of the matters set forth in such memorandum; and that such matters are true to the best of his knowledge and belief.

Michael Jay Ensrud

Subscribed and sworn to before me this 13th day of December 2005.



Rosemarie Riedl
Notary Public

My commission expires June 1, 2009