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Executive Director  
MO PSC

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August 23, 2010

Missouri Public Service Commission  
Attn: Mr. Wess Henderson  
PO Box 360  
Jefferson City, MO 65102

**RE: Southern Missouri Natural Gas (SMNG) Rate Increase**

Dear Mr. Henderson:

This is in response to your letter to Representative Michael Cunningham on August 9<sup>th</sup>, 2010. I appreciate the PSC promptly evaluating the proposed SMNG rate increase to ensure the necessity of it so that the rate payers are not paying for any mismanagement of the SMNG's natural gas distribution network.

I have not alleged, nor am I now, that any improper practices were done in the determination of the chosen contractor(s) to perform the work on the extension to Branson. I do know that:

1. Herion was imminently qualified to perform the work, by SMNG's own admission via an invitation to bid. Herion has worked on projects much more complex and difficult than the proposed expansion, and on larger diameter welded steel pipelines with three times the operating pressure proposed for this line. Furthermore SMNG management that had worked with us on another project believed us to be imminently qualified.
2. In the original bid Herion's costs were substantially lower than the other two bidders that bid. (\$20 million, \$27 million and close to \$40 million approximately as the information was relayed to me)
3. In the rebid SMNG waived the mandatory pre-bid meeting, invited other contractors to bid, and entered into discussions with our subcontractors about performing the work.
4. The only missing item in the second bid was a bid bond, which was intentional because we did not want a financial obligation to an organization that would not stand behind what they told us, as we had experienced on numerous occasions.

After we submitted the bid the first time, SMNG's management team tightly controlled the information and would not take our calls, etc. Generally on a project in the \$20 million size there is professionalism and transparency that accompanies, and it was not present on this project. They wasted two months of our company's resources and never intended to seriously consider our proposal. I have never participated in a bid process that was as disorganized and unprofessional.

I did not understand SMNG's conduct but when I received their request for a substantial rate increase, I felt it important to raise the issue that something may not be right, or fair regarding this and that it was worth looking into to ensure that it was. I appreciate your consideration and know that you will take the appropriate steps to keep SMNG accountable to their rate payers. Please contact me if you would like to further discuss.

Best Regards,

Randall S. Herion, M.E.  
Herion Co.

Cc: Representative Michael Cunningham