

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION**

At a session of the Public Service
Commission held at its office in
Jefferson City on the 25th day
of May, 2006.

In the Matter of Southern Missouri Gas Company,)	
L.P.'s Purchased Gas Adjustment (PGA) Factors to be)	<u>Case No. GR-2005-0279</u>
Reviewed in its 2004-2005 Actual Cost Adjustment)	

**ORDER ESTABLISHING ACA BALANCE
AND CLOSING CASE**

Issue Date: May 25, 2006

Effective Date: June 4, 2006

Southern Missouri Gas Company, L.P. ("SMNG"), provides natural gas service to some 7,745 sales customers in the southern portion of Missouri, including Greene, Webster, Wright, Howell, Douglas, and Texas Counties. This case was opened for the purpose of receiving SMNG's 2004-2005 Purchased Gas Adjustment filings and Actual Cost Adjustment filing.

Actual Cost Adjustment Balances:

On April 13, 2006, the Procurement Analysis Department of the Staff of the Missouri Public Service Commission filed a Memorandum and Recommendation indicating that Staff has reviewed SMNG's 2004/2005 Actual Cost Adjustment ("ACA") filing and audited SMNG's billed revenues and actual gas costs for the period September 1, 2004, through August 31, 2005. Staff states that it has also conducted a reliability analysis and hedging review for SMNG. Staff recommends that the Commission issue an order requiring SMNG

to establish the ACA account balances in its next ACA filing to reflect the following ending balances to be collected from (or refunded to) the ratepayers:

Description	Company's Ending Balances Per Filing	Staff Adjustments	Staff Recommended Ending Balances
Prior ACA Balance (8/31/04)	\$ 417,867	\$ 0	\$ 417,867
Cost of Gas	\$ 4,508,788	\$ 0	\$ 4,508,788
Cost of Transportation	\$ 1,144,567	\$ 0	\$ 1,144,567
Revenues	(\$ 5,805,417)	\$ 0	(\$ 5,805,417)
Pipeline Refunds Received	(\$ 38,947)	\$ 0	(\$ 38,947)
Interest on Under-recovered ACA Balance	\$ 5,554	\$ 0	\$ 5,554
Total ACA Balance (8/31/05)	\$ 232,412	\$ 0	\$ 232,412

In addition to the ACA balance, Staff made the following observations and recommendations:

Hedging

Staff recommended that SMNG maintain a current hedging plan, continue 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 to help its gas procurement decision-making. That hedging plan must include detailed plans to provide proper documentation of gas purchasing decisions at the time SMNG makes those decisions.

Reliability Analysis and Gas Supply Planning

Lack of Supporting Documentation

Staff begins by stating that SMNG's gas supply plans contain much less support than its plans for its 2003/2004 ACA in Case No. GR-2005-0064. Staff alleges that SMGC failed to indicate the Heating Degree Day (HDD) selected for its peak day analysis, and that SMNG's assumptions for its peak day planning must be documented. Further, Staff asserts that SMGC had no data to support its estimate of customer growth. Staff also states that SMNG's assumptions for its peak day model had no supporting documentation, and that SMNG's employee turnover is not a reason to have insufficient documentation. Staff also recommended that SMNG continue to make attempts to provide more data for large general and large volume customers for estimating peak day requirements. Finally, Staff states that SMNG's estimate of normal monthly requirements lack sufficient supporting documentation.

Inadequate Explanation of Planning Capacity for Future ACA Periods

According to Staff, for the ACA under review, which is the 2004/2005 ACA, and the 2005/2006 ACA, SMNG has insufficient transportation capacity should a historic peak cold day occur. After review of SMNG's 2004/2005 planning, Staff states that SMNG's interest in acquiring an additional 5,000 dekatherms per day from Southern Star would result in SMNG going from a shortage of capacity for peak day planning for about 5.5% in January, 2005 to an excess capacity of 35% in January, 2007. Staff states that it will review SMNG's support for this substantial increase no later than the 2006/2007 ACA, and that SMNG's assumptions and decisions for its peak day planning must be documented, including supporting workpapers.

In addition, Staff states that SMNG's peak day estimate does not explain what capacity is needed in the production zone. Staff again states that SMNG's assumptions and decisions for its peak day planning must be documented, including supporting workpapers.

Inadequate Gas Supply Plans and Reliability

Staff says that SMNG uses spot purchases to address colder weather requirements. However, Staff asserts that there is no assurance that spot gas will be available on cold days, and that SMNG had no firm swing contracts for the 2004/2005 ACA. For earlier ACA's, Staff noted that SMNG has had difficulty finding any natural gas. Staff stated that SMNG agreed in an earlier ACA that gas supplies could be extremely tight during peak cold days. To address those peak cold days, SMNG said that it would: monitor the weather and make FOM and mid-month spot purchases if appropriate; hopes to have contracts with two additional suppliers prior to December 1, 2004; may be able to make purchasing calls with a current supplier; and is inquiring about getting some released capacity for winter.

Lack of Formal Capacity Release Procedures

Staff states that SMNG has only made informal notification that it acquired additional capacity beginning in December, 2006. Also, Staff believes that detailed capacity release procedures and documentation of SMNG's efforts to release capacity may be more of an issue in future ACA cases.

SMNG's Response:

On May 4, 2006, SMNG responded to the Staff's recommendation in which it stated that it agreed with the ending balances determined by the Staff. Further, SMNG stated that

all of Staff's recommendations are acceptable to SMNG, and that it agrees to provide better documentation of its planning and analysis, including support workpapers.

The Commission has reviewed the memorandum filed by Staff and the response filed by SMNG. The Commission determines that the ending balances shown in the Staff recommendation are reasonable and should be approved. The Commission further determines that the above recommendations from Staff, to which SMNG agreed, are reasonable, and should also be approved.

IT IS THEREFORE ORDERED THAT:

1. Southern Missouri Gas Company, L.P., shall establish the Actual Cost Adjustment account balances in its next Actual Cost Adjustment filing as discussed herein.
2. Southern Missouri Gas Company, L.P., shall provide information to the Procurement Analysis Department of the Staff of the Missouri Public Service Commission as requested by Staff in its Memorandum and Recommendation.
3. This order shall become effective on June 4, 2006.
4. This case may be closed on June 5, 2006.

BY THE COMMISSION



Colleen M. Dale
Secretary

(S E A L)

Davis, Chm., Murray, Gaw, Clayton,
and Appling, CC., concur.

Pridgin, Regulatory Law Judge