

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

In the matter of the Application of	)	
Southern Missouri Gas Company, L.P.	)	
d/b/a Southern Missouri Natural Gas	)	Case No. GF-2007-0215
for Authority To Issue approximately \$10 Million	)	
in Equity Capital and approximately \$50 Million In	)	
Notes and Other Forms of Indebtedness.	)	

**STAFF’S STATEMENT OF POSITION ON THE ISSUES**

Comes now the Staff of the Missouri Public Service Commission (“Staff”) and for its position on the issues states:

**LIST OF ISSUES**

1. *Should the Commission adopt the Staff Recommendation to approve with conditions the Second Amended Financing Application of SMNG?*

**Staff’s position:** Yes, with the conditions Staff recommended in its February 11, 2008 Recommendation in this case.

Staff recommends that this Application for financing be approved with the following conditions:

1. That nothing in the Commission’s order shall be considered a finding by the Commission of the value of this transaction for rate making purposes, which includes, but is not limited to the capital structure, and that the Commission reserves the right to consider the rate making treatment to be afforded these financing transactions and their effect on cost of capital, in any later proceeding.
2. That the Company file with the Commission all final terms and conditions of the proposed financing, including, but not limited to, the aggregate proceeds received, price information, and estimated expenses.
3. That the funds authorized pursuant to the debt instrument shall only be used for capital expenditures related to the proposed expansion of Lebanon, Houston, Licking, Hollister, Branson, Branson West and the existing SMNG natural gas distribution system and the funds shall not be used for the purposes of paying operating expenses.

4. That the Company file with the Commission any information concerning deviations from their stated use of the funds from the issuance(s) that would materially change the pro forma financial statements.

5. That the debt and equity investor shall be \*\* \_\_\_\_\_  
\*\* as represented in the Second Amended Financing Application.

6. \*\* \_\_\_\_\_ \*\* agrees and warrants that as long as  
\*\* \_\_\_\_\_ \*\* is the noteholder of the debt instrument proposed in the Second Amended Financing Application, it will also continue to hold the majority equity interest. If the debt instrument proposed in the Second Amended Financing Application should be refinanced at some time in the future, SMNG will request Commission approval to do so.

7. That the approval is only for the proposed \$45 million of senior secured debt and not the \$12 million Revolving Credit Facility identified in the terms and conditions of the senior secured debt.

8. That the length of authority for this approval is for sixteen months following the effective date of the Commission's order approving the \$45 million of senior secured debt.

9. That SMNG will not seek an increased cost of capital as a result of financing decisions that are considered to be imprudent. SMNG understands that the Commission's authorization of this financing proposal is not an endorsement of the proposal for purposes of setting the rate of return in future rate or complaint cases.

2. *Should the Commission authorize SMNG to proceed with its proposed financing, as described in the Second Amended Financing Application of SMNG, in order to permit SMNG to use the funds for the purposes stated therein?*

**Staff's position:** Yes. Please refer to the Staff's February 11, 2008 Recommendation in this case as noted above.

WHEREFORE Staff respectfully submits its positions on the issues in response to Commission order.

Respectfully submitted,

/s/ Lera Shemwell

Lera 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 24th day of March, 2008.

/s/ Lera L. Shemwell

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Lera L. Shemwell