

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

In the Matter of Southern Missouri Gas Company)	
d/b/a/ Southern Missouri Natrual Gas Purchased)	
Gas Adjustment (PGA) Factors to be Audited)	Case No. GR-2010-0218
in Its 2010-2011 Actual Cost Adjustment)	

RESPONSE TO STAFF RECOMMENDATION AND MEMORANDUM

Comes now Southern Missouri Gas Company, L.P. d/b/a Southern Missouri Natural Gas, (“SMNG” or “Company”), and respectfully provides to the Missouri Public Service Commission (Commission) the following response to the Commission Staff Recommendation and Memorandum:

1. On May 31, 2011, the Commission Staff (“Staff”) filed its Recommendation and Memorandum in this matter. This document set out the results of Staff’s audit of the billed revenues and actual gas costs for the period September 1, 2009 through August 31, 2010, included in SMNG’s 2010-2011 Actual Cost Adjustment (“ACA”) filing.

2. On June 7, 2011, the Commission issued its Order Establishing Response Deadline wherein it ordered SMNG to respond to the Staff Recommendation and Memorandum no later than July 8, 2011. SMNG will respond to the various issues identified by Staff in the following paragraphs. SMNG’s response will reference the Memorandum by use of the same section titles utilized by the Staff.

3. There are four Staff recommended financial adjustments for this ACA period. On June 22, 2011 Company personnel spoke with Staff and expressed concern with Staff’s recommendation regarding the capacity release adjustment for the School Aggregation customers. The Company requests additional time to respond to these recommendations. SMNG is working with the Missouri School Board Assoication and Seminole Energy to determine the

best course of action regarding this situation. The following report responds to all Staff Recommendations with the exception of the capacity release adjustment and the aggregation and balancing fee associated with the School Aggregation customers. The Company intends to negotiate a solution prior to signing the contracts with the schools in October and will keep Staff informed on the progress in a monthly report completed and sent to Staff the last day of each month.

PRIOR YEAR ACA BALANCE

4. The Staff Recommendation indicates that SMNG started this ACA period using the incorrect beginning balance from last year's adjustment (Case No. 2009-0287). The Company agrees and will reduce the cost of gas by \$4,346 in accordance with the Commission Order in Case No. 2009-0287.

ACTUAL COST OF GAS – BP ENERGY

5. Staff identifies a discrepancy between the estimate cost of gas purchased from BP Energy and the actual cost. The Company agrees and will increase the gas cost by \$2,790.

HEDGING

6. SMNG will continue to hedge using fixed price purchases as ordered in the settlement in Case No. GC-2006-0180. As Staff recommended, the Company will stay current with market developments and use disciplined approaches to implement a reasonable strategy. SMNG is adding storage to its hedging plan for the 2010-2011 heating season to help accommodate the growth in the Lebanon area and expansion in the Branson area.

RELIABILITY ANALYSIS AND GAS SUPPLY PLANNING

Peak Day for Residential and General Service Customers

7. The Company acknowledges the importance of acquiring adequate capacity for a peak cold day as the number of customers increase. The Company agrees with Staff's comments in the previous ACA Cases (GR-2009-0287 and GR-2008-0379) and will plot its data to include the 95% confidence interval factor for its intercept and heat load factor. SMNG will provide an updated peak day analysis for 2011-2012 by 9/1/11 and will include the four supporting items noted in Staff's recommendation.

Reserve Margin for Future Periods

8. SMNG acknowledges Staff's concern and will verify that excess capacity from Rogersville can be used to serve the Branson area in a peak day situation.

Methodology Concern for Monthly Normal, Warm, and Cold Weather Estimates

- a. Monthly Normal Weather Estimates – Going forward SMNG will use monthly base load and heat load factors (opposed to annualized values) in its evaluation of peak day and will continue to work toward developing monthly normal estimates to be used for gas supply plans.
- b. SMNG's Monthly Cold and Warm Weather Estimates – In accordance with Staff's recommendation, the Company will provide updated monthly estimates for normal, warm and cold weather for 2011/2012 by 9/1/11.

WHEREFORE, Southern Missouri Gas Company, L.P. d/b/a Southern Missouri Natural Gas respectfully requests that the Commission consider this response to the Staff Memorandum and Recommendations and issue such orders as it believes to be reasonable and just.

Respectfully submitted,

/s/ James M. Fischer

James M. Fischer, MBN 27543
Fischer & Dority, P.C.
101 Madison—Suite 400
Jefferson City, Missouri 65101
Telephone: (573) 636-6758
Facsimile: (573) 636-0383
Email: jfischerpc@aol.com
Attorney for Southern Missouri Gas Company,
L.P. d/b/a Southern Missouri Natural Gas

CERTIFICATE OF SERVICE

The undersigned certifies that a true and correct copy of the foregoing document was sent by electronic mail on July 8, 2011, to the following:

Lera L. Shemwell
Office of the General Counsel
lera.shemwell@psc.mo.gov

Marc Poston
Office of the Public Counsel
marc.poston@ded.mo.gov

/s/ James M. Fischer

James M. Fischer