BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

In the matter of Southern Missouri Gas Company, L.P.'s Purchased Gas Adjustment factors to be Reviewed in Its 1999-2000 Actual Cost Adjustment.	))))	Case No. GR-2001-39
In the matter of Southern Missouri Gas Company, L.P.'s Purchased Gas Adjustment factors to be Reviewed in Its 2000-2001 Actual Cost Adjustment.	))))	Case No. GR-2001-388

SOUTHERN MISSOURI GAS COMPANY, L.P.'s
RESPONSE TO STAFF RECOMMENDATION

COMES NOW Southern Missouri Gas Company, L.P. (hereinafter "SMGC" or "Company") by and through its counsel of record and states its Response to the Staff's Recommendation filed on October 31, 2002, as follows:

1. On October 31, 2002, the Commission Staff filed its recommendations following the completion of the audit of the Actual Cost Adjustment ("ACA") rates for the period of September 2000 to August 2001. The Commission Staff reviewed SMGC's calculations and made the following recommendations:

> The Staff recommends that the Commission issue an order requiring Southern Missouri Gas to:
>
> 1. Approve the 1999-2000 ACA under-recovery balance of $1,670,180.
>
> 2. Dismiss the "Bidding Process" issue that was in dispute in the 1999-2000 ACA, Case No. GR-2001-39. Staff no longer proposes that the Company issue RFP's in its gas planning process for the 1999-2000 ACA period.
>
> 3. Decrease the firm sales ACA balance by $105,809 to include revenues for Transportation Service - Internal at the amount the revenues would have been if the gas had been sold at the authorized PGA-adjusted rate.

4. Increase the firm sales ACA balance by $2,024 to include the carrying cost of the DCCB.

5. Document and submit by March 3, 2003, a copy of the Company's policies and procedures for nominating natural gas and include at a minimum the information from the "Purchasing Practices" section above.

6. Take the following actions related to the Company's reliability analysis by March 3, 2003.

a. Submit an updated reliability report showing the estimated demand and capacity to meet peak day requirements for the 2001-2002, 2002-2003, and 2003-2004 ACA period and use the peak HDD estimate of 72 HDD in calculating peak day requirements.

b. Provide supporting detail in the 2001-2002 ACA review for the customers numbers chosen for the peak day estimates.

c. Provide supporting information for how the baseload and heatload factors are calculated for the three customer types of optional, residential and general. Additionally, for the large general and large volume customers explain how the estimated usage was determined for each of these customers.

d. Submit to Staff an updated summary of actual usage, actual HDD and customer counts for five or more recent cold days from the 2000-2001, 2001-2002 or 2002-2003 ACA periods. Compare the usage on these actual cold days to the usage estimated by the Company's forecasting model for those days. Include a calculation of the percent over (under) estimation by the forecasting model. List firm and interruptible volumes separately or show how the model treats these. Provide an explanation when the modeled usage does not reasonably agree with the actual usage. If the model is re-evaluated based on these findings, please provide details of the re-evaluation.

e. Provide an estimate of the reserve margin for the 2001-2002 ACA period and for three years beyond that. Explain the rationale for the reserve margin for each of these years. For any negative reserve margin shown, provide an explanation of the firm transportation capacity that will be used to meet demand requirements beyond the firm contract maximum daily quantities. For any shortfall of capacity, provide details about the actions the Company will take for firm residential, commercial and large volume customers whose demand will not be met should a peak day recur. Submit an economic analysis comparing the cost of additional firm capacity to the cost of the penalties for exceeding the contract maximum daily quantities

> by the amount of the negative reserve quantity. Also, provide an economic analysis of any other options to be used by the Company for minimizing the possibility of interruption of natural gas service to firm customers.

2. After reviewing the Staff's Recommendation in this matter, the Company has determined that most of the above-referenced recommendations are acceptable to the Company. However, the Company strongly disagrees with the Staff's recommendation that there should be disallowance of $105,809 related to the "Transportation Service-Internal" issue. Staff's position is based upon the unrealistic assumption that, absence the measures taken by the Company to retain two industrial customers on the system, there would have been an increase of revenues of $105,809, "if the gas had been sold at the authorized PGA-adjusted rate." (Staff Recommendation, App. A, page 6 of 8). If the Company had not taken the steps necessary to compete with alternative fuels for these two industrial customers, it is probable that these two industrial customers would have left the SMGC system, or substantially reduced their throughput. As recognized by Staff, "[r]educed throughput would result in the fixed transportation costs being allocated over smaller volumes thus increasing the Purchased Gas Cost." (Staff Recommendation, App. A, page 6 of 8). This result would have harmed SMGC's remaining ratepayers. While SMGC may not have had a specific tariff that addressed this situation, SMGC strongly believes the actions taken by it at the time to maintain these two industrial customers upon its system were prudent and reasonable. In fact, one of the industrial customers did substantially reduce their throughput by switching much of their production load to an alternative energy source.

In addition, the Company takes exception to the Staff's computation of the Deferred Carrying Cost Balance (DCCB) amount. The Company believes the analysis is flawed for several reasons. First, the volumes are based on the inclusion of the internal transport activity. The Company believes this activity should be excluded in the determination of the DCCB computation. Second, the Company contends the methodology used by the Staff in computing the DCCB amount is flawed in addition to being inconsistent with the language in the Company's tariff. It is flawed in that it computes a price variance based on the Actual Cost of Gas divided by the gross MMBtu purchases which is compared to the revenue rate (i.e., RPGA factor plus the ACA factor). Thus, no adjustment is considered for the gas Williams retains as a fuel charge and for the conversion to a Ccf basis. According to tariff language on Sheet No. 26, "Such over- or under-recovery shall be determined by a monthly comparison of the actual (as billed) cost of gas as shown on the books and records of the Company . . . to the cost recovery by the Company . . . . The cost recovery shall be calculated by multiplying the PGA class Ccf sales by the applicable revenue components [the RPGA factor and the ACA factor] related to the cost of gas purchased." Utilizing this approach, the Company computes the DCCB amount to be recovered from customers to be $15,374. A schedule showing the computation of this amount is attached as Exhibit A.

Finally, the Company recently discovered that Gas Supply Realignment Costs paid to Williams Pipeline from May 1996 to September 1998 amounted to $132,946. Of this amount, only $19,434 has previously been included in gas cost in prior ACA audits. The amount of $19,434 was an adjustment proposed by the Staff in the 1997-98 ACA Filing dated July 30, 1999. Thus, the net amount paid to Williams but not collected is $113,512. It should also be noted that Williams Pipeline in FERC Docket Nos. RP99-257, et al. made an Offer of Settlement to resolve all issues related to gas supply realignment (GSR) costs which the FERC approved on August 30, 1999 and became effective on November 1, 1999. As a part of this settlement, the Company received a refund of $62,345.17 in January 2000 which has been refunded to our customers. Thus, the Company refunded monies to its customers that it essentially never collected to begin with. Given these circumstances, the Company requests that it be allowed to recover the amount of $113,512.

WHEREFORE, having responded to the Staff Recommendation, Southern Missouri Gas Company, L.P. urges the Commission to issue an Order consistent with the Company's Response herein.

Respectfully submitted,

/s/ James M. Fischer

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ATTORNEYS FOR
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CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been hand-delivered, emailed or mailed, First Class, postage prepaid, this 25th day of November, 2002, to:

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/s/ James M. Fischer

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James M. Fischer

SOUTHERN MISSOURI GAS COMPANY, L.P.
Regular Purchased Gas Adjustment ("RPGA") Revenues
September 1, 2000 to August 31, 2001
11/25/02

	September	October	November	December	January	February	March	April	May	June	July	August
RPGA and ACA Revenues	132,384.78	205,742.93	411,881.47	1,129,854.52	1,320,863.17	1,068,533.69	1,152,252.62	668,157.44	275,123.12	219,536.28	162,308.13	155,933.32
Gas Cost	221,686.42	327,106.14	426,775.06	1,713,414.21	1,710,664.05	797,509.37	851,067.27	347,886.26	101,027.46	218,864.99	165,437.93	175,082.22
Over/(Under) Collection - Month	(89,301.64)	(121,363.21)	(14,893.59)	(583,559.69)	(389,800.88)	271,024.32	301,185.35	320,271.18	174,095.66	671.29	(3,129.80)	(19,148.90)
Over/(Under) Collection - Cumulative	(89,301.64)	(210,664.85)	(225,558.44)	(809,118.13)	(1,198,919.01)	(927,894.69)	(626,709.34)	(306,438.16)	(132,342.50)	(131,671.21)	(134,801.01)	(153,949.91)
10% Threshold	321,223.83	321,223.83	321,223.83	321,223.83	321,223.83	321,223.83	321,223.83	321,223.83	321,223.83	321,223.83	321,223.83	321,223.83
Amount Subject to Interest	0.00	0.00	0.00	(487,894.30)	(877,695.18)	(606,670.86)	(305,485.51)	0.00	0.00	0.00	0.00	0.00
Prime Rate less 1%	8.50%	8.50%	8.50%	8.50%	8.50%	7.50%	7.50%	7.00%	6.50%	6.00%	5.75%	5.75%
Interest - Month	0.00	0.00	0.00	(3,455.92)	(6,217.01)	(3,791.69)	(1,909.28)	0.00	0.00	0.00	0.00	0.00
Interest - Cumulative	0.00	0.00	0.00	(3,455.92)	(9,672.93)	(13,464.62)	(15,373.90)	(15,373.90)	(15,373.90)	(15,373.90)	(15,373.90)	(15,373.90)

EXHIBIT A

	Total
RPGA and ACA Revenues	6,902,571.47
Gas Cost	7,056,521.38
Over/(Under) Collection - Month	(153,949.91)
Over/(Under) Collection - Cumulative	
10% Threshold	
Amount Subject to Interest	
Prime Rate less 1%	
Interest - Month	(15,373.90)
Interest - Cumulative	