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**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION**

At a Session of the Public Service
Commission held at its office
in Jefferson City on the 22nd
day of September, 1998.

In the Matter of Southern Missouri Gas)
Company's Purchased Gas Adjustment Factors)
to be Audited in its 1996-1997 Actual Cost)
Adjustment.)
Case No. GR-97-234

ORDER DIRECTING RESPONSE

This case was opened for the purpose of receiving the 1996-97 Purchased Gas Adjustment filings and Actual Cost Adjustment filing of Southern Missouri Gas Company (SMG or Company). On July 31, 1998, the Procurement Analysis Department of the Staff of the Commission (Staff) filed a memorandum indicating that Staff has reviewed the 1996-1997 Actual Cost Adjustment (ACA) filing of SMG. Staff stated that it audited the billed revenues and actual gas costs for the period of September 1, 1996 to August 31, 1997. Staff states that SMG carried forward an under-recovery balance of \$44,312 from the 1995-96 ACA filing, Case No. GR-96-85, even though Staff believes that an under-recovery balance of \$73,620 should have been carried forward from the 1995-96 ACA period. As a result, SMG should increase the under-recovery balance by \$29,308. Staff also states that SMG has included in its gas costs a monthly agency fee that SMG pays to its affiliate who provides gas supply procurement and transportation services under the Gas Management Agreement. Staff states that SMG's PGA tariffs do not allow for recovery of fees related to

agency agreements and views agency fees as related to consulting services which should be reviewed in a general rate case. Staff proposes an adjustment to reduce SMG's gas costs by \$31,850. Staff points out that SMG failed to issue Requests for Proposals (RFP's) for "swing" gas supply during several months when gas was priced considerably higher than the first of the month index pricing and failed to do any price evaluations comparing the affiliate with other suppliers. As a result, Staff proposes an adjustment to reduce firm customers' gas costs by \$12,712. After reviewing the 1996-97 ACA filing of SMG, the Staff believes that the Company's contract with WNG overstated its peak day requirements. As a result, the Staff suggests that the appropriate level of transportation costs to include in this filing is \$515,693, not the invoiced cost of \$746,433. Staff states that the actual cost of gas is \$1,839,176 and the actual cost of transportation is \$746,433 during this ACA period. The adjusted ACA balance, after adjustment for the prior ACA balance, spot market purchases, agency fees, and excess capacity after the Staff adjustments is \$579,447.

Staff recommends that the Commission issue an order requiring Southern Missouri Gas to adjust the Firm sales ACA balance by \$219,357 from the filed under-recovery balance of \$360,090 to the Staff adjusted under-recovery balance of \$579,447 as shown in the following chart:

Firm ACA	Beginning ACA Balance Per Filing	Staff Adjustments	Ending ACA Balance Per Staff
Cost of Gas	\$1,839,176	(\$44,562)	\$1,794,614
1995/96 ACA Balance	\$44,312	\$29,308	\$73,620
Transportation Cost	\$274,506	\$241,187	\$515,693
Revenue Recovery	\$1,780,733	\$23,746	\$1,804,480
Credit voucher Adj	(\$17,171)	\$17,171	\$0
Total	\$360,090	\$219,357	\$579,447

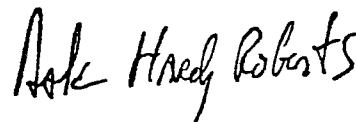
Staff also recommends that the company be ordered to file a written response to Staff's recommendation within 30 days.

The Commission has reviewed the memorandum filed by Staff and determines that the Company shall file a response to Staff's recommendation no later than October 22, 1998.

IT IS THEREFORE ORDERED:

1. That the Company shall file a response to the recommendation of the Staff of the Commission no later than October 22, 1998.
2. That this order shall become effective on October 2, 1998.

BY THE COMMISSION



Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

(S E A L)

Murray, Schemenauer and Drainer, CC., concur.
Lumpe, Ch., and Crumpton, CC., absent.

Register, Regulatory Law Judge

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COMMISSION COUNSEL
PUBLIC SERVICE COMMISSION