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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 25th
day of November, 1997.

In the Matter of Tartan Energy Company,)
L.C., d/b/a Southern Missouri Gas Company,)
L.C. Purchased Gas Adjustment Factors to)
be Audited in its 1995-1996 Actual Cost)
Adjustment.)

Case No. GR-96-85

ORDER APPROVING ACTUAL COST ADJUSTMENT

This case was opened for the purpose of processing and monitoring the periodic Purchase Gas Adjustment (PGA) filings of Southern Missouri Gas Company, Inc. (SMG) and for auditing the SMG 1995-96 Actual Cost Adjustment (ACA) filing.

On September 2, 1997, the Staff of the Missouri Public Service Commission (Staff) filed its recommendation. Staff's audit consisted of an analysis of actual billed revenues and actual gas costs, for the period of November 1995 to August 1996.

This Commission granted a certificate of convenience and necessity to SMG to serve residents of Greene, Wright, and Webster Counties, including the incorporated municipalities of Rogersville, Fordland, Diggins, Norwood, and Seymour, Missouri, in September of 1995. During August of 1996 SMG had 3,165 customers on its system. SMG began providing service during the month of November 1995.

In summary Staff proposes: (1) a reduction in firm customer's gas costs by \$15,625 to reflect a normal level of unaccounted for gas; (2) a reduction in firm customer's gas costs by \$6,391 because SMG did not obtain tariff authority to recover agency fees as a gas cost in this ACA

filing; (3) a reduction in the cost of gas by \$13,017 to reflect the difference between the first of the month index pricing (plus 8 cents) and the actual price for delivery; and (4) that the Commission order SMG to develop Request for Proposals (RFPs) as part of its gas supply plan and include all bid evaluations comparing the prices bid by its affiliate to prices bid by other suppliers and/or marketers.

The Staff developed a modified revenue recovery and gas cost recovery to reflect an adjusted ACA balance of \$73,620. This includes a projected transportation cost of \$94,428. Staff encourages SMG to evaluate hedging instruments and other measures to mitigate the effects of price volatility in the gas market.

On October 2 SMG filed a response to the Staff's recommendation. After making several clarifying statements SMG states that it is willing to accept Staff's recommendation. SMG requests the Commission to issue an order approving Staff's recommendation regarding actual cost adjustment and accept the adjusted rates on a permanent basis.

On October 8 Staff filed a reply to SMG's response. Staff states that it concurs with SMG's response and points out that the Stipulation and Agreement in Case No. GA-94-127 (SMG's certificate case) provides that the agreement does not constitute prior approval of any excess capacity which may arise in future ACA proceedings; and as part of the Agreement SMG agreed to file a rate case within two years of commencing service to West Plains, Missouri. Staff states that its recommendation is based on the belief that the issue of excess capacity should be addressed in the context of the Company's next formal rate case.

The Commission has reviewed the Staff memorandum and other pleadings filed in this docket and determines that the Staff's recommendations should be implemented.

IT IS THEREFORE ORDERED:

1. That Southern Missouri Gas Company shall adjust the firm sales ACA balance by \$44,312 from the filed under-recovery balance of \$29,308 to the Staff adjusted under-recovery balance of \$73,620. This adjustment shall be included as a separate line item adjustment applied to the beginning ACA balance.

2. That Southern Missouri Gas Company shall provide written documentation of its bid process and make Request for Proposals available for the Staff's review.

3. That this order shall become effective December 5, 1997.

BY THE COMMISSION

A handwritten signature in black ink, reading "Dale Hardy Roberts". The signature is written in a cursive, flowing style.

Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

(S E A L)

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

Luckenbill, Deputy Chief Regulatory Law Judge