

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

In the Matter of Southern Missouri Gas Company, L.P.'s)
Purchased Gas Adjustment Factors to be Reviewed) Case No. GR-2005-0064
In Its 2003-2004 Actual Cost Adjustment.)

**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 Recommendation filed on June 8, 2005 as follows:

1. On June 8, 2005, the Commission Staff filed its recommendations following the completion of the audit of the Actual Cost Adjustment ("ACA") rates for the 2003/2004 ACA period. 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. Adjust the ACA account balances in its next ACA filing to reflect the Staff adjustment and to reflect the (over)/under-recovered ACA and Refund balances in the far-right column of the following table:

Description (+) Under-recovery (-) Over-recovery	Company Ending Balances Per Filing	Staff Adjustments	Staff Recommended Ending Balances
Prior ACA Balance 8/31/03	\$669,009		\$669,009
Cost of Gas	\$3,992,557		\$3,992,557
Cost of Transportation	\$1,059,398		\$1,059,398
Revenues	(\$5,243,504)		(\$5,243,504)
Revenue Adjustment	(\$32,535)	\$32,535	\$0
Internal Transport Revenues	(\$119,808)		(\$119,808)
ACA Approach for Interest Calculation	\$3,767	\$3,445	\$7,212
Total ACA Balance 8/31/04	\$328,884	\$35,980	\$364,864

_____. **. We are also currently in the process of negotiating and finalizing two additional NAESB contracts with ** _____ ** as well as in preliminary discussions with several more potential suppliers. It's important to note that our two current suppliers represent approximately ** ____ ** of the total physical supply available on the Southern Star system on any given day, including peak days. When you take into consideration the fact that SMGC's average seasonal base load is relatively small (2,500 MMBtu/d summer, 7,500 MMBtu/d winter) there is a point at which diversifying gas suppliers too much will reduce efficiencies and add incremental costs. We also feel it is important to recognize that some "value" must be assigned to the excellent and long-standing relationships SMGC has with both of its current suppliers and further reducing what is already a minimal volumetric transaction could have detrimental effects on those relationships, particularly on peak days. SMGC's Gas Control Manager will continue to track and record all transactions, including various bid solicitations and decision/strategic rationale, for each transaction in an ongoing Gas Supply Journal.

Hedging

SMGC is constantly analyzing the market and evaluating opportunities to utilize both physical and financial hedging tools. Typically, we utilize medium term fixed price physical contracts to hedge ** _____ ** of our anticipated winter gas supply needs. Historically, we have "staged" these purchases in increments (i.e., similar to a dollar cost averaging strategy) which also helps avoid making an "all or nothing" bet. Currently, we are evaluating several peak day physical call options for approximately ** _____ ** of supply in addition to our normal physical winter gas hedging strategies. We have also explored and will continue to analyze various financial derivatives, including costless collars. However, current price volatility has created significant upward pressure on futures pricing and financial call options and fixed price swaps are very expensive. Finally, we are continually monitoring the market for released capacity but typically, on the Southern Star system, it is rare that winter capacity is released and when it is it is almost always on a "recallable" basis.

Reliability Analysis

SMGC is currently participating in an Open Season with Southern Star on line segment 455. we have submitted a bid for an additional ** _____ ** of firm Market Zone capacity at full Market Zone Tariff Rates currently in effect. Southern Star has indicated that the incremental capacity associated with this expansion will provide adequate capacity for approximately the next ten years based on estimates they received from all of the shippers on this line. Additionally, Southern Star has communicated to us and all the other shippers that this current capacity expansion represents an absolute maximization of their existing facilities with minimal capital outlays and that it has been oversubscribed. They also indicated they do not anticipate any additional expansion projects for the next ten years and that any future expansions will require significant capital expenditures which will result in corresponding rate increases. In addition to enhancing its ability meet current peak day requirements, SMGC is also in position

to realize significant growth on its system and this additional capacity would put us in an opportune position to (a) meet peak day requirements for a longer time horizon incorporating anticipated system load growth and (b) capitalize on the current rates versus significant future increases in costs. SMGC also feels that any capacity in excess of our peak day requirements will have a greater released market value than that which is recallable. We feel that failure to participate in this current open season for the capacity defined above would be imprudent and irresponsible.

SMGC is currently entertaining several proposals for a Propane/Air peak shaving facility to fill the gaps between our reliability requirements and the projected on line schedule for the additional Southern Star capacity. We are also involved in discussions with ** _____ ** regarding the possibility of participating in a "joint" Propane/Air peak shaver. Additionally, we and other southwest Missouri shippers are in preliminary discussions with ** _____ ** regarding the possibility of establishing a new pipeline interconnect which would provide SMGC with new gas supply options currently not available.

SMGC does not feel that the current imbalance tolerance levels imposed by Southern Star in November 2004 will impair our ability to reliably serve our customers on normal or peak day situations. However, we do feel that this will negatively impact the overall cost of gas through the increased likelihood of incurring imbalance penalties. Finally, Southern Star appears to have abandoned its attempts to impose balancing fees on gas allocations exceeding daily tolerance levels.

Refund Description	Refund Balance Per Filing	Staff Adjustments	Staff Recommended Refund Balance
Prior Refund Balance 8/31/03 per settlement agreement- GR-2004-0193	\$ 54,016		\$ 54,016
Refunds Received	\$ (2,243)		\$ (2,243)
Refunds billed to Customers	\$1,230		\$1,230
Total Refund Balance 8/31/04	\$ 53,003		\$ 53,003
Total ACA + Refund Ending Balance 8/31/04	\$381,887	\$ 35,980	\$417,867

2. To submit information by July 11, 2005, to address Staff's comments and concerns listed in the reliability analysis summary section of this document.
3. File a written response to the above recommendations by July 11, 2005."

SMGC Response to Staff Recommendation

2. After reviewing the Staff's Recommendation in this matter, the Company has determined that the above-referenced recommendations are acceptable to the Company.

SMGC Comments Regarding Reliability

3. In addition, SMGC hereby submits the following information to address Staff's comments and concerns listed in the reliability analysis summary section of its Staff

Recommendation:

(HC information indicated by ** _____ **)

Gas Supply Documentation

SMGC has redoubled its effort to enforce its policy of requiring confirmations for every transaction with its gas suppliers.

Bid Solicitation

SMGC currently has two active GISB contracts in place with two suppliers, ** _____

WHEREFORE, having responded to the Staff Recommendation, Southern Missouri Gas Company, L.P. urges the Commission to issue an Order adopting Staff's Recommendation filed in this matter.

Respectfully submitted,

/s/ James M. Fischer

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Attorneys for Southern Missouri Gas Company,
L.P.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the above and foregoing document was emailed, mailed or hand-delivered, this 6th day of July, 2005, to:

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/s/ James Fischer

James M. Fischer