

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

In the matter of the Application of)	
Southern Missouri Gas Company, L.P.)	
d/b/a Southern Missouri Natural Gas for a)	
certificate of public convenience and)	
necessity authorizing it to construct,)	Case No. GA-2007-0212
install, own, operate, control, manage and)	
maintain a natural gas distribution system)	
to provide gas service in Lebanon,)	
Missouri.)	

**STAFF RESPONSE TO COMMISSION ORDER
DIRECTING FILING OF LIST WITNESSES
AND SYNOPSIS OF TESTIMONY**

COMES NOW the Staff of the Commission and in Response to the Commission's July 10th Order Adopting Procedural Schedule submits its List of Witnesses and synopsis of witness position:

1. Staff has reviewed the information submitted in the Application and has determined that some items required by Chapter 3, Filing Requirements for Gas Utility Applications for Certificates of Convenience and Necessity 4 CSR 204-3.205 have not yet been submitted.

2. The Commission Rule concerning Applications, 4 CSR 240-2.060(M)(2), requires that any items unavailable at the time of the filing of the application shall be furnished prior to the granting of the authority sought.

3. Staff recommends that, since the Company has the burden of proof in this case, its witnesses testify first, followed by the Staff witnesses, and finally by any witnesses of the Missouri Propane Gas Association

Staff Witnesses

Thomas A. Solt – Mr Solt will address:

Company history and ownership

Evaluation of the Company's Application

Feasibility of the Project – information required by Commission rules must be submitted prior to the Commission's granting a Certificate of Convenience and Necessity. One concern with the economic feasibility of this proposed project are that the Company will face embedded, entrenched competition from propane dealers, whose prices and business practices are unregulated. Another concern is customer conversion rates and the costs of construction.

The Company has franchise agreements with Lebanon, Licking, and Houston. There is language in each of the franchise agreements that gives each respective city the option to purchase the distribution system within it for the net book value plus 15%. If any of the cities exercises this option, it would place the Company in violation of the stipulation and agreement in Commission Case No. GA-94-127, in which the Commission noted in its order "that Tartan [the predecessor of Southern Missouri Gas and of Southern Missouri Natural Gas] provide only retail natural gas service to the ten municipalities from which it has received franchises" [Commission Report and Order, Case No. GA-94-127, p. 9].

The Lebanon franchise issue raised by MPGA should be resolved by a ratification vote to be held in Lebanon in August.

David Murray – Mr. Murray will address:

Financing - SMNG seeks an order of the Commission granting the Applicant the authority to issue approximately \$10 million in additional equity capital and approximately \$50 million in notes and other forms of indebtedness (“debt securities”) with maturities of up to 10 years.

At this time Staff does not recommend approval of SMNG’s financing because of concerns Staff had about SMNG’s financial statements, and SMNG’s operations in general. Because of these concerns Staff believes it is important to evaluate more specific terms and conditions of the proposed financing. However, SMNG had not been able to procure the specific terms and conditions before Staff could make a recommendation on the requested certificates. Staff suggests that the Commission condition its grant of a CCN until Staff receives the terms and conditions proposed by the ultimate investors in SMNG. After SMNG has filed this information Staff will issue its final recommendation relative to SMNG’s financing application.

David Sommerer – will be available for questions concerning gas supply and gas purchasing practices

Mark Oligschlaeger – will be available for questions concerning SMG's financial reporting and regulatory reporting treatment of its net rate base assets.

It is Staff's position that the Commission may reasonably issue a conditional CCN with, at least, the conditions that: (1) Applicants complete the information required by Commission rules, (2) Applicants submit the results of the Lebanon ratification vote and (3) Applicants submit the financing information recommended above.

WHEREFORE Staff submits its list of witnesses and the order in which they shall be called in response to Commission order.

Respectfully submitted,

/s/ Lera L. Shemwell

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or emailed to all counsel of record this 24th day of July 2007.

/s/ Lera Shemwell