BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

Office of the Public Counsel	)	
	)	
Complainant,	)	
	)	
v.	)	Case No. GC-2006-0180
	)	
Southern Missouri Gas Company, L.P.	)	
	)	
Respondent.	)	

STAFF MEMORANDUM IN SUPPORT OF UNANIMOUS STIPULATION AND AGREEMENT

COMES NOW the Staff of the Missouri Public Service Commission ("Staff") and submits its Memorandum in Support of the Unanimous Stipulation And Agreement (Agreement) filed in this case. In support thereof Staff states:

Introduction

The Parties have worked diligently to resolve the issues raised in the Public Counsel's Complaint. On October 21, 2005, the Public Counsel filed a complaint against Southern Missouri Gas Company d/b/a Southern Missouri Natural Gas, SMGC or Company) alleging, among other things, that the Company failed to comply with the Commission's Hedging rule. Rule 4 CSR 240-40.018. On October 24, 2005, the Commission issued a Notice of Complaint and the Company filed its Answer and Motion To Dismiss on November 23, 2005. On December 22, 2005, the Commission issued its Order Denying Motion To Dismiss. Since then the Parties have met to discuss the issues and all issues in the case were resolved by the Unanimous Stipulation and Agreement filed on March 13, 2006.

SMGC is a Local Distribution Company (LDC), and a Missouri Limited Partnership that owns and operates a natural gas transmission and distribution system located in southern Missouri that serves approximately 7,500 residential, commercial and industrial customers. The present owners took over the operations of these facilities in May 2005.

The Staff entered into the Agreement with conditions that are designed to assure that the Company regularly communicates with the Commission, the Staff and OPC concerning the status of the Company's gas purchasing plans, and type and extent of the hedging mechanisms that the Company is using.

In addition to other agreements reached, the Company filed specimen tariff sheets with the Agreement that describe the Company's plan to encourage the use of energy efficient natural gas appliances. In this Memorandum, Staff will address the issues in the order in which they appear in the Stipulation.

1. The formal process

Staff agreed that it was reasonable to establish a formal process for SMGC to provide certain information concerning its gas purchasing practices to the Commission, to Staff and to OPC. The information is to include data regarding natural gas physical purchases and hedging provided each spring and updates provided each summer and early fall. It is not Staff's intent, however, that provision of this information for review by the Staff is in any way a substitute for Staff's subsequent Actual Cost Adjustment audit. The Agreement specifically provides that the report submitted by the Company and Staff's review and comments, if any, may not be used as a defense of CCSMGC's decision-making concerning either its reliability planning or the prudence of its hedging or other gas buying decisions.

The Agreement requires the Company to prepare a gas supply plan that will include how the Company plans to implement its natural gas physical purchases and hedging strategies for the upcoming winter of 2006-2007 as well as in subsequent years. Realizing that gas purchasing is a dynamic activity that must be adjusted for changing conditions, the Agreement provides for the Company to notify the Commission, Staff and OPC of significant changes to its plans.

The initial Company plan is to be filed on April 1, 2006, for the 06-07 winter heating season and is required to contain several components including that SMGC will protect 20% of its gas purchases by use of fixed price instruments, or will otherwise hedge against market exposure, no later than April 30, 2006. The Agreement provides some flexibility for the Company in case conditions are not favorable for making such hedges, but generally the Company is expected to begin making decisions concerning at least 20% of its gas by April 30.

Likewise, the Agreement requires SMGC to hedge a minimum of 40% of its normal winter gas supply no later than July 15, 2006 and a minimum of 55% by no later than October 1, 2006, unless good cause is shown for deviating from this benchmark. It is not Staff's intent or expectation that it will take over or even supervise the management of gas supply purchasing for this company, but Staff does support the benchmarks in the Agreement as providing some guidance concerning the Company's need to actually put in place a gas supply plan with reasonable hedging strategies to meet its customer's needs.

This Agreement provides that the Company is responsible for making prudent decisions concerning but not limited to: the timing of any hedges, the quantity hedged, and the type of hedging instrument used. The term "hedge" may be interpreted in many ways. In order to place some definition on that term for this Agreement, Staff agreed with the provision that the terms "fixed prices" and "otherwise hedged against market exposure" shall not include so-called "first-of-month (FOM)" pricing or "basis hedging."

To avoid confusion as to the terms used several definitions were included in the Agreement including that the term "normal winter heating-season gas supply" means the five months of November, December, January, February, and March and that the minimum requirements shall be achieved on a monthly basis for each month of the "normal winter heating-season gas supply."

The Agreement also defines non-winter months shall mean the months of April through October and suggests that these months should be evaluated by the Company for prudent hedges but that no minimum purchasing or hedging requirements are stated for the purposes of this Agreement.

As in other cases, Staff is unwilling to agree to permit any type of agreement to substitute for a full prudence review, and is reflected in the Agreement provision that the company retains all responsibility for its decisions regarding gas purchasing and hedging and will remain subject to prudence reviews as part of the annual PGA/ACA processes, and any rate case and complaint proceedings. Public Counsel and the Commission Staff retain the ability to challenge the prudence of any gas purchasing or hedging activities undertaken by SMGC.

One of the reasons that a written plan is necessary is that the two primary gas purchasing managers under the prior owner, Scott Klemm and Bill Walker, are no longer with the Company. This loss of expertise with this particular natural gas distribution system is one of Staff's concerns. That is one of the reasons that Staff has agreed to the provision that the Company supply its written plan no later than April 1. Staff's comments, however, will be informal and preliminary only because the responsibility for managing the system necessarily rests with the Company. Staff has made clear that these comments may not be considered a substitute for a full ACA/PGA review, and that Staff's comments may not be used as a defense of SMGC's decision making concerning either its reliability planning or the prudence of its hedging or other gas buying decisions.

2. Reconnection fees

As part of its Agreement to settle OPC's complaint the Company agreed to permit reconnection of customers who enter into payment arrangement that would recover any arrearages above the minimum payment requirement under 4 CSR 240-13.055 over an eighteen (18) month period rather than the twelve (12) month period currently required by 4 CSR 240-13.055. Staff has no objection to this Agreement.

3. Energy efficiency rebate program

SMGC has agreed to initiate a Company-financed, energy efficiency rebate program (Program) designed to encourage more efficient utilization of natural gas by providing rebates on the purchase and installation new furnaces and water heaters with high energy efficiency ratings by residential and commercial customers in the Company's service area. SMGC agrees to file tariff sheets with the Commission within ten (10) days of the effective date of the Order Approving Stipulation and Agreement which will implement the Program. Staff has reviewed specimen tariffs for the program. The energy efficiency goals and rebates provided in the specimen tariffs are similar to the furnace rebate programs and energy efficiency goals in tariffs approved by the Commission for other Missouri natural gas LDCs. Although similar programs have been approved by the Commission, the programs have not been in place long enough for Staff to evaluate the effectiveness of the programs in terms of energy efficiency goals.

WHEREFORE, the Staff recommends the Commission approve the Unanimous Stipulation and Agreement.

Respectfully submitted,

/s/ Lera L. Shemwell__________________

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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 17th day of March 2006 to all counsel of record .

/s/ Lera L. Shemwell__________________
Lera L. Shemwell