



GOVERNOR OF MISSOURI

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TO THE SECRETARY OF STATE OF THE STATE OF MISSOURI

Herewith I return to you Senate Committee Substitute for Senate Bill No. 240 entitled:

AN ACT

To repeal sections 393.150 and 393.1012, RSMo, and to enact in lieu thereof two new sections relating to ratemaking for gas corporations.

I disapprove of Senate Committee Substitute for Senate Bill No. 240. My reasons for disapproval are as follows:

Senate Committee Substitute for Senate Bill No. 240 would expand from three to five years the period of time in which a gas utility can collect an infrastructure system replacement surcharge (ISRS) and would impose a 30 percent increase in the maximum amount of ISRS the utility can charge consumers. Senate Committee Substitute for Senate Bill No. 240 would also authorize gas utilities to track the amount of bad debt (i.e. uncollectible utility bills) they incur and then recover 90 percent of the difference between the actual amount of bad debt and the amount of bad debt estimated during their most recent rate case before the Public Service Commission (PSC). Because the harm to consumers from increased gas bills outweighs the legislation's potential benefits, Senate Committee Substitute for Senate Bill No. 240 does not receive my approval.

The existing ISRS mechanism was created in 2003 when Missouri's two large gas companies, Missouri Gas Energy (MGE) and Laclede Gas Company (Laclede), and Missouri American Water Company (MAWC) had fallen behind on infrastructure maintenance. The needed infrastructure replacements, unlike a new power plant for an electric company, would not have generated any additional revenue, but would simply have replaced gas and water mains to maintain their systems in working order and to protect against threats to public safety from aging infrastructure.

To address this problem, the General Assembly enacted Senate Substitute for Senate Committee Substitute for House Bill No. 208 (2003), which authorized the ISRS mechanism for water utilities serving more than 10,000 customers in St. Louis County and all gas utilities in Missouri. Currently MGE and Laclede Gas are the only Missouri gas utilities utilizing the ISRS, although Laclede is currently in the process of acquiring MGE, which will leave only one gas utility

imposing an ISRS surcharge. Since the gas ISRS was enacted, the utilities have made significant investments to ensure that their systems are in working order. According to MGE, the company replaced approximately 176 miles of bare steel and cast iron main from 2003 to 2012 – more than 86 percent in excess of the amount mandated under PSC order. Similarly, Laclede has indicated that it is replacing more than 31 miles of cast iron mains annually and, following its acquisition of MGE, will significantly increase its investments in MGE's infrastructure.

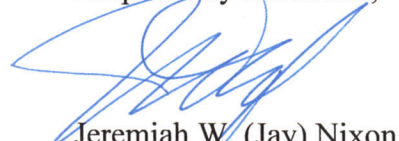
As the above demonstrates, the existing ISRS mechanism has had the intended effect of encouraging the gas utilities to replace and maintain their infrastructure. However, what the above fails to demonstrate is any compelling reason to expand this existing mechanism and, by doing so, raise utility costs for Missouri consumers. While an increase in the existing ISRS would no doubt benefit the utilities, this benefit would come at a cost to consumers—a cost the PSC could police less frequently due to the additional two years Senate Committee Substitute for Senate Bill No. 240 would allow between general rate cases. Moreover, this additional two years between rate cases would prevent consumers from seeing the benefit of any savings realized by the utility during that additional time—such as through the pending consolidation of MGE and Laclede.

More troubling than the ISRS expansion is the provision of Senate Committee Substitute for Senate Bill No. 240 that would authorize a gas utility to recover from its ratepayers 90 percent of the uncollectible “bad debt” it incurs from its non-paying customers. Under current law, a utility has a strong incentive to collect on its customer debts or prevent customers from running up excessive arrearages in the first place, since any increase in bad debt simply reduces the utility's profits. However, Senate Committee Substitute for Senate Bill No. 240 would all but eliminate this incentive, since the utility would now be able to bank on recovering from its paying customers 90 percent of the bad debt it incurs. In this way, Senate Committee Substitute for Senate Bill No. 240 would insulate company profits from any increase in bad debt by shifting the risk of non-payment from the utility to its ratepayers, which is an unacceptable result for the vast majority of ratepayers who pay their bills on time.

While there is much in Senate Committee Substitute for Senate Bill No. 240 to benefit utilities, there is little, if anything, in it for consumers. Nowhere does the bill mandate increased reliability or enhanced safety and nowhere does it offer the real possibility of lower utility bills. Without a compelling reason to expand the existing ISRS and with the perverse incentive created by allowing utilities to recover bad debts from their paying customers, consumers should not have to shoulder the burden this bill would impose.

In accordance with the above stated reasons for disapproval, I am returning Senate Committee Substitute for Senate Bill No. 240 without my approval.

Respectfully submitted,



Jeremiah W. (Jay) Nixon
Governor