



## Missouri Attorney General

### Attorney General's News Release

February 27, 2001

## Missouri's system of regulating natural gas prices needs overhaul, Nixon says

Jefferson City, Mo. — Missouri's system of natural gas regulation places too much burden on the consumer and provides too little incentive to gas companies to keep rates down, Attorney General Jay Nixon said today in a report to Gov. Bob Holden.

Nixon said there is no evidence of illegal activity on the part of the local distribution gas companies, but there is evidence that Missouri laws regulating gas prices do not provide consumers with appropriate protections from dramatic price increases.

"The gas companies have not broken the law," Nixon said. "The law is broken and does not provide adequate protection for the consumer who is captive to the monopoly interests."

Local distribution companies are monopolies under regulation by the Public Service Commission.

Nixon held hearings in Kansas City on Jan. 31 and in St. Louis on Feb. 9 where he took testimony from representatives of gas companies and the PSC; from the Office of Public Counsel, the official legal representative for consumers on utility matters; from industry analysts; and directly from the public.

Nixon recommended legislative action to compel the gas companies to assume a greater share of the burden of volatile gas prices and to ensure that consumers pay the lowest reasonable rate.

Under the current system, each local gas company can file for an adjustment to its rates if the price of natural gas at the wholesale level is up, as reported on the New York Mercantile Exchange (NYMEX) — even without showing that the company bought gas at that market price. The PSC can approve the price increase within 10 days of the filing. A PSC review for ascertaining the exact price paid for the gas, however, takes place after an "actual cost adjustment" proceeding. This proceeding takes at least nine months and if contested, can take several years, Nixon said.

"Under the current system, it takes only 10 days for rates to go up but it can take as long as

three years for rates to go back down," Nixon said. "That must change. The consumer needs the benefit of the lowest price at all times."

Nixon made several recommendations to change PSC procedures in the short-term, including:

- Mandating prompt rate decreases when wholesale prices go down; and
- Requiring public disclosure of the actual wholesale price a company pays and the volume of gas purchased at that price. Missouri law currently protects that information from public disclosure and rate-payers must accept company claims that higher rates are required to cover the wholesale cost of gas and are not used to make profit for the companies.

"Right now there is no way for the public to ascertain how much the company paid for the gas the consumer is currently using," Nixon said.

For the long-term, Nixon advises a complete analysis of the method of regulating natural gas for the purpose of ensuring that the consumer has the benefit of the lowest reasonable rate and requiring companies to assume greater responsibility for their own gas purchase practices.

Nixon said areas of review for possible long-term solutions should include:

- The current Purchase Gas Adjustment (PGA) program, which allows companies to file for rate changes three times a year, based on wholesale gas price changes as reported on the NYMEX. The system was established in the 1960s when the federal government regulated the wholesale price of gas. The system continued even after the government deregulated wholesale gas in the late 1980s. Until 1997, the Purchase Gas Adjustment was established on a monthly basis.
- Possible use of the standard rate-making process, which is used by the PSC to set rates for other utilities. This process requires the company to justify all of its costs, including gas purchases, prior to approval.
- Consideration of a possible split between gas costs passed through to the consumer through the PGA and placing some portion of the gas cost in the general rate case for an audit of reasonableness of the costs.
- Re-evaluation of the current incentive programs. The state should consider whether the rate-payer should be assuming all the risk in the program, which allows the industry to absorb a portion of the profit.
- Allowing the industry to recover fixed distribution costs on a monthly basis rather than through volumetric charges. The current system requires consumers to pay a substantial portion of those costs during high heating bill months.
- "Unbundling" or some other form of deregulation that provides consumers the opportunity to choose which gas supplier they would like to supply the commodity.

"The goal of the review should be to ascertain whether we have a system that appropriately balances consumers' interest in low prices, the ability of the regulators to protect consumers from dramatic rate increases, and one which recognizes the companies'

interest in a reasonable rate of return," Nixon said.

Inquiries from consumers should be directed to [consumer@ago.mo.gov](mailto:consumer@ago.mo.gov) or **1-800-392-8222** (from within Missouri) or 573-751-3321 (outside Missouri).

All media inquiries should be directed to the Press Secretary.

E-mail    Phone: 573-751-8844    Fax: 573-751-5818



GOVERNOR OF MISSOURI

JEFFERSON CITY

65102

JEREMIAH W. (JAY) NIXON  
GOVERNOR

P.O. Box 720  
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March 23, 2009

Commissioner Robert M. Clayton III  
Chairman  
Missouri Public Service Commission  
Governor Office Building  
200 Madison Street  
Jefferson City, MO 65101

Re: State Energy Program Funding

Dear Chairman Clayton:

I am attaching the relevant section of the recently passed American Recovery and Renewal Act of 2009 (H.R. 1)(ARRA), which contains certain requirements regarding energy efficiency programs as a condition of the state of Missouri receiving its share of \$3.1 billion in federal State Energy Program (SEP) funds.

Within the limits of my authority as Governor, and fully recognizing your authority as an independent regulatory agency, I request that you consider appropriate additional steps consistent with state law, the attached statute and relevant federal Public Utility Regulatory Policy Act (PURPA) requirements, to implement appropriate incentives for energy efficiency programs. I am asking the Missouri Energy Center to work with you as you consider potential enhancements to existing energy efficiency incentives.

I appreciate your attention to this matter.

Sincerely,

STATE OF MISSOURI

Jeremiah W. (Jay) Nixon  
Governor

JWN:bwk  
cc: Mark N. Templeton, Director, Missouri Department of Natural Resources  
Attachment

**SEC. 410. ADDITIONAL STATE ENERGY GRANTS.** (a) IN GENERAL.—Amounts appropriated under the heading “Department of Energy—Energy Programs—Energy Efficiency and Renewable Energy” in this title shall be available to the Secretary of Energy for making additional grants under part D of title III of the Energy Policy and Conservation Act (42 U.S.C. 6321 et seq.). The Secretary shall make grants under this section in excess of the base allocation established for a State under regulations issued pursuant to the authorization provided in section 365(f) of such Act only if the governor of the recipient State notifies the Secretary of Energy in writing that the governor has obtained necessary assurances that each of the following will occur:

(1) The applicable State regulatory authority will seek to implement, in appropriate proceedings for each electric and gas utility, with respect to which the State regulatory authority has ratemaking authority, a general policy that ensures that utility financial incentives are aligned with helping their customers use energy more efficiently and that provide timely cost recovery and a timely earnings opportunity for utilities associated with cost-effective measurable and verifiable efficiency savings, in a way that sustains or enhances utility customers’ incentives to use energy more efficiently.

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March 23, 2009

The Honorable Steven Chu  
Secretary  
U.S. Department of Energy  
1000 Independence Avenue, S.W.  
Washington, D.C. 20585

Re: Missouri State Energy Program (SEP) Assurances

Dear Secretary Chu:

I am writing regarding Missouri's share of the \$3.1 billion funding for the State Energy Program (SEP) under the American Recovery and Renewal Act of 2009 (H.R. 1)(ARRA). We anticipate that this increased level of SEP funding will allow Missouri to pursue a variety of programs and projects in the agricultural, industrial, commercial, residential and governmental sectors to achieve energy savings. We appreciate the significant opportunities that the SEP, the Low Income Weatherization Assistance Program, and the State Energy Block Grant funding will provide as we work with Missouri communities and the private sector to promote effective and wise utilization of our energy resources.

I have written the Missouri Public Service Commission (PSC) and suggested that they consider additional actions to promote energy efficiency consistent with the provisions contained in H.R. 1, while balancing existing obligations to maintain just and reasonable rates for Missouri consumers. Consistent with U.S. Department of Energy guidance, I have also instructed the Missouri Department of Natural Resources' Director to begin a dialogue with authorized communities which have the authority to adopt energy standards. The State is committed to working with communities to create model energy efficiency standards that, if local units of government choose to implement, should reduce energy costs for Missourians. I and my staff will also work with the Missouri General Assembly to pursue incentives to assist communities in promoting improved energy efficiency consistent with the goals of ARRA.

Missouri's objectives in our overarching plan for distribution and utilization of SEP funds will be job creation, energy savings, the promotion of renewable energy, and reductions in air pollution. We will prioritize our energy investments so as to take advantage of existing program delivery mechanisms, while also considering enhancements where appropriate.

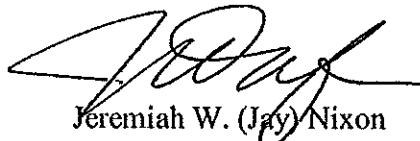
The Honorable Steven Chu  
March 23, 2009  
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The state of Missouri is committed to using this historic opportunity to proactively work with communities, and when appropriate, the General Assembly of Missouri, to provide incentives and technical assistance that will result in improvements in energy efficiency and renewable energy, as well as a balanced state energy policy. I want to assure you that, within the limits of my authority, we will move forward in these critical areas.

We look forward to the opportunity to work with you as we refine Missouri's proposal for utilization and distribution of the federal SEP funds to assist Missouri in making progress in energy efficiency and renewable energy development.

Respectfully submitted,

STATE OF MISSOURI



Jeremiah W. (Jay) Nixon  
Governor

JWN:bwk

c: Gil Sperling, Director, Office of Weatherization and Intergovernmental Programs, USDOE  
Mark N. Templeton, Director, Missouri Department of Natural Resources