

FIRST REGULAR SESSION

HOUSE BILL NO. 747

99TH GENERAL ASSEMBLY

INTRODUCED BY REPRESENTATIVE MILLER.

1361H.021

D. ADAM CRUMBLISS, Chief Clerk

AN ACT

To amend chapter 393, RSMo, by adding thereto one new section relating to rate making for gas corporations.

Be it enacted by the General Assembly of the state of Missouri, as follows:

Section A. Chapter 393, RSMo, is amended by adding thereto one new section, to be
2 known as section 393.151, to read as follows:

393.151. 1. For purposes of this section, the following terms shall mean:

2 **(1) "Annual rate cap", a limitation on the amount of any increase to the revenue**
3 **requirement reflected in rates resulting from the application of the earnings test to an**
4 **annual amount of no more than three and one-half percent of a participating gas**
5 **corporation's Missouri gross jurisdictional revenues, and no more than an annual average**
6 **of three percent over any four-year period of annual true-ups, with excess amounts**
7 **deferred and booked to a regulatory asset account for recover in a later period. Such**
8 **limitation is inclusive of any infrastructure system replacement surcharge (ISRS) charges**
9 **reset in the annual true-up;**

10 **(2) "Annual true-up", an annual filing made by a participating gas corporation to**
11 **reflect in rates various updated financial and operational results defined in this subsection**
12 **and utilizing the review process described in subsection 2 of this section;**

13 **(3) "Cost management accountability" or "CMA", an adjustment mechanism used**
14 **in the annual true-up to better hold a participating gas corporation accountable for and**
15 **incentivize effective management of its costs, by comparing the updated operations and**
16 **maintenance (O&M) expense to a performance benchmark approved in the periodic rate**
17 **review proceeding based on the normalized and annualized O&M expense in the then**

EXPLANATION — Matter enclosed in bold-faced brackets [thus] in the above bill is not enacted and is intended to be omitted from the law. Matter in **bold-face** type in the above bill is proposed language.

18 concluding year, updated for increases in the consumers price index-urban (CPI-U). The
19 CMA shall be subject to a grow & share provision to recognize that significant growth in
20 the gas corporation or its parent corporation benefits customers and the state;

21 (4) "Cost stabilization reserve", a mechanism designed to moderate the impacts of
22 significant extraordinary or force majeure expenses on the revenue requirement recovered
23 through the annual true-up by permitting such costs to be deferred and booked to a
24 regulatory asset to include in the next annual true-up, and amortized into rates over a
25 period of three to five years, unless a longer period is otherwise determined by the
26 commission to be appropriate;

27 (5) "Earnings test", a mechanism that calculates the achieved earnings level during
28 the updated test year period to determine if a rate change should be made as part of the
29 annual true-up, based on any over- or under-earnings beyond a basis point range above
30 or below the updated return on equity, subject to the annual rate cap;

31 (6) "Foundational elements", the rate making determinations and methods
32 approved or modified by the commission as identified in paragraphs (a) through (n) of
33 subdivision (2) of subsection 3 of this section as updated or adjusted consistent with the
34 processes and mechanisms set forth in this section;

35 (7) "Grow & share", a provision of the CMA mechanism recognizing significant
36 growth in the participating gas corporation or its parent corporation. If such growth
37 occurs and the number of utility customers acquired is greater than ten percent of the gas
38 corporation's then current number of customers, then the performance benchmark of the
39 CMA shall not be reset during the periodic rate review proceeding for a period of ten
40 years. After year ten, the benchmark used for the annual true-up will be reset based on
41 the updated O&M expense in the then preceding year;

42 (8) "Initiating general rate case proceeding", the initial general rate case proceeding
43 required in subsection 2 of this section to commence the annual true-up and implement the
44 other provisions of this section;

45 (9) "Performance measurement indicators", service and operational metrics
46 approved by the commission in the initiating general rate case proceeding or periodic rate
47 review proceeding and utilized in subsequent annual true-up to hold a participating gas
48 corporation accountable for managing satisfactory levels of performance in key areas
49 including, but not limited to, safety, reliability, customer satisfaction, service, and
50 operations;

51 (10) "Periodic rate review proceeding", the process described in subsection 2 of this
52 section to review and, if necessary and appropriate, revise the key elements used to
53 establish rates in the annual true-up;

54 (11) "Revenue stabilization mechanism", a mechanism that adjusts rates as part of
55 the annual true-up to prevent an over- or under-recovery of authorized distribution
56 revenues due to changes in usage by the participating gas corporation's residential
57 customers and those nonresidential customers with annual usage equivalent to or less than
58 20,000 decatherms (Dth);

59 (12) "Revenue requirement", the amount of revenues to be in effect for the next
60 annual period, as calculated in the annual true-up in accordance with the requirements of
61 this section, including any adjustments resulting from application of the earnings test,
62 subject to the annual rate cap, and any adjustment resulting from the application of the
63 CMA, plus any adjustment resulting from the operation of the revenue stabilization
64 mechanism;

65 (13) "Updated cost of capital", a calculation used to set rates in the annual true-up
66 for the following annual period. It is the product of the updated rate base and the ending
67 pre-tax weighted average cost of capital of the participating gas corporation, based on the
68 updated return on equity and updated interest rate;

69 (14) "Updated distribution revenues" the distribution-related revenues, annualized
70 for changes in customer levels. Such revenues reflect amounts billed by the gas
71 corporation during the updated test year, as adjusted to reflect the annualized revenues
72 of the participating gas corporation's then effective ISRS charges, and accruals booked
73 resulting from the application of the revenue stabilization mechanism, but excluding those
74 revenues accounted for through the gas corporation's purchased gas adjustment and actual
75 cost adjustment;

76 (15) "Updated ineligible expenses", are the updated test year O&M expenses of the
77 same kind and character as those commonly disallowed by the commission in the gas
78 corporation's initiating general rate case proceeding or periodic rate review proceeding.
79 Such ineligible expenses shall be excluded from the rates established in any annual true-up
80 unless or until a reviewing court or the commission subsequently determines that such
81 costs were properly includable in rates;

82 (16) "Updated interest rate", the weighted average interest rate for the gas
83 corporation's long-term debt and preferred stock outstanding as of the end of the updated
84 test year which is used to determine the updated cost of capital for purposes of setting rates
85 in the annual true-up;

86 (17) "Updated O&M expense", the normalized and annualized distribution
87 operations and maintenance expense incurred by the participating gas corporation during
88 the updated test year, which shall be calculated by reflecting the normalized and
89 annualized net dollar amount in Federal Energy Regulatory Commission (FERC) Accounts

90 700 through 950 "operation expenses", less any updated ineligible expenses in those
91 accounts. Such updated O&M expense shall be used for determining the gas corporation's
92 performance under the cost management accountability mechanism and making any
93 resulting rate adjustment as part of the annual true-up;

94 (18) "Updated other expenses", the normalized and annualized depreciation and
95 amortization expense, as well as all federal, state, and local taxes, other than gross receipts,
96 sales, and other similar pass-through taxes;

97 (19) "Updated rate base", the ending updated test year balances for the
98 participating gas corporation's investments in net utility property, plant, and equipment,
99 including reset ISRS investment amounts, adjusted for related accumulated deferred
100 income taxes, plus cash working capital and working capital, as adjusted consistent with
101 the methodology established for the gas corporation in its initiating general rate case
102 proceeding or periodic rate review proceeding, plus the ending balance of any cost
103 stabilization reserve amount. The updated rate base shall exclude investments being
104 recovered through the participating gas corporation's purchased gas adjustment and
105 actual cost adjustment;

106 (20) "Updated return on equity", the return on equity authorized for the
107 participating gas corporation in its initiating general rate case proceeding or periodic rate
108 review proceeding, adjusted each year in the annual true-up for results of the performance
109 measurement indicators and capital market changes, reflected in long-term treasury bond
110 rates;

111 (21) "Updated test year", the historic annual period between the effective dates of
112 each annual true-up, which is used as the beginning and ending point for establishing the
113 revenue requirement in the annual true-up process.

114 2. (1) A gas corporation may file with the commission an initiating general rate
115 case proceeding in which it will provide notice of its election to participate in the update
116 process established under this section. Such case shall be conducted in accordance with
117 the procedures and requirements established by the commission for general rate case
118 proceedings. Additionally, the commission shall, with the assistance of the parties to the
119 proceeding, cause to be prepared and approve a supplement to the detailed reconciliation
120 required to be filed by subsection 4 of section 386.420. The supplement shall include any
121 additional information required for the periodic rate review proceeding and set forth in
122 the foundational elements used in calculating rates in the annual true-up.

123 (2) If the gas corporation has had new rates become effective in the past two years
124 as a result of a general rate case proceeding, then the commission shall, upon the filing of
125 a notice by the gas corporation requesting such action, conduct a proceeding that shall

126 serve as the gas corporation's initiating general rate case proceeding. Such a proceeding
127 shall only consider and determine the foundational elements of the periodic rate review
128 proceeding that were not otherwise identified by agreement or by a commission order in
129 the general rate case proceeding. Such proceeding shall be conducted and concluded
130 within five months and shall not result in any change in rates.

131 **3. (1) Following the conclusion of the third rate year effectuating an annual true-up**
132 **and the conclusion of each third rate year effectuating an annual true-up thereafter, only**
133 **the gas corporation and no other party shall file a periodic rate review proceeding. The**
134 **commission shall review the gas corporation's positions and documentation and permit**
135 **interested stakeholders to present their own positions and evidence on the matters**
136 **addressed in the filing within sixty days of the filing date. The gas corporation shall**
137 **respond to such positions and evidence within ninety days of the filing date. If any issues**
138 **remain to be resolved between the parties, the commission shall schedule a hearing to**
139 **commence within one hundred twenty days of the filing date and shall issue an order**
140 **setting forth its determinations and findings on each item within five months of the filing**
141 **date of the periodic rate review proceeding. Such determinations shall be used to set rates**
142 **in subsequent annual true-up, subject to the right of the gas corporation and other parties**
143 **to seek judicial review of the determinations in accordance with applicable law. The**
144 **existence of a judicial review proceeding shall not preclude a gas corporation from filing,**
145 **or the commission from processing, any subsequent initiating general rate case, annual**
146 **true-up, or periodic rate review proceeding.**

147 **(2) Such filing shall be made at least six months prior to the gas corporation's next**
148 **annual true-up filing and shall include proposed positions and supporting documentation**
149 **on each of the items set forth below:**

150 **(a) A full and complete description of the calculation methods to be used to**
151 **determine the cash working capital requirement, which shall specify the revenue and**
152 **expense lag for each revenue and expense item to be considered in establishing such**
153 **revenue requirement component in the annual true-up;**

154 **(b) A full and complete description of the calculation methods to be used to**
155 **determine working capital items, including regulatory assets or liabilities receiving rate**
156 **base treatment, as well as customer deposits, contributions in aid of construction, other**
157 **investments required for business purposes, such as materials and supplies, inventories,**
158 **and prepaid items;**

159 **(c) A full and complete description of each regulatory asset or liability to be**
160 **included in rates, including the ending balance of each asset or liability, whether rate base**

161 treatment is afforded in working capital, and the annual amortization amount to be include
162 in rates in the annual true-up;

163 (d) A full and complete description of each item in the cost stabilization reserve,
164 including ending balances. Such description shall include the ending balance of each asset
165 or liability, whether rate base treatment is afforded, and the annual amortization amount
166 to include in rates in the annual true-up;

167 (e) A full and complete description of the weighted capital structure to be included
168 in rates in the annual true-up, which shall include the weighting to use for each component
169 consistent with the actual capitalization of the gas corporation; provided that, the gas
170 corporation's equity component is no less than forty percent and no more than sixty
171 percent of its total capital structure and is within ten percentage points of the equity
172 component of its parent corporation's capital structure, if any;

173 (f) A specification of the return on equity to be used to calculate rates, which shall
174 include the starting benchmark capital market rate to use for the annual true-up. This
175 benchmark rate shall be the most recent twelve-month average of the thirty-year United
176 States treasury bond yield as published by the Board of Governors of the Federal Reserve
177 System in its weekly H.15 statistical release or any successor publication or, if such yields
178 are no longer published, the yields of the United States treasury bonds then having the
179 longest duration published by the Board of Governors in its weekly H.15 statistical release
180 or successor publication;

181 (g) A full and complete description of the performance measurement indicators to
182 be used to measure the gas corporation's performance and, depending on actual results
183 achieved, potentially adjust the gas corporation's updated return on equity in the annual
184 true-up proceeding. No fewer than four and no more than six metrics shall be established
185 to be included in rates in the annual true-up. A benchmark range of acceptable
186 performance shall be established based on the gas corporation's historical experience in
187 the area measured over the most recent five years, or shorter period if consistent
188 information is not available and such range shall be reasonably achievable. Each metric
189 shall be assigned a value of five basis points, and performance levels above or below the
190 benchmark range shall be used to increase or decrease, respectively, the subsequent
191 updated return on equity;

192 (h) The defined performance benchmark cost level for O&M expense that shall be
193 used for the CMA mechanism for the subsequent annual true-ups to compare against the
194 updated O&M expense. Such benchmark shall be set based on the updated O&M expense
195 in the then concluding updated test year, subject to the grow & share provision of the
196 CMA mechanism. If the grow & share provision is in effect, the performance benchmark

197 of the CMA shall not be reset during the periodic rate review proceeding for a period of
198 ten years;

199 (i) A full and complete description, including all FERC accounts, of the categories
200 and types of ineligible operating expenses to be excluded from rates in the annual true-up;

201 (j) A full and complete description of the methodologies to be used to allocate joint
202 and common costs included in rates between the gas corporation and its affiliates to the
203 extent the methodologies differ from those in the commission-approved cost allocation
204 manual;

205 (k) A full and complete identification of the billing determinants to be used to
206 establish rates, for use in the annual true-up and revenue stabilization mechanism
207 processes;

208 (l) A full and complete identification of the class cost of service method to be used
209 to allocate costs between and within each customer class, including the rate design to be
210 used for each class, together with a specification of the method to be used to allocate any
211 increase or decrease in revenue requirement for the annual true-up;

212 (m) A full and complete identification of the depreciation rates to be used to
213 establish rates included in the annual true-up; and

214 (n) A full and complete set of templates to be used for the surveillance reports that
215 will be submitted on a quarterly basis to report current operating expenses, rate base,
216 revenues, and performance metrics used in the annual true-up.

217 4. (1) A participating gas corporation shall, on a quarterly basis, submit to the
218 commission staff the surveillance reports referenced in paragraph (n) of subdivision (2) of
219 subsection 3 of this section. Subject to normal commission discovery procedures, the gas
220 corporation shall, as requested by the commission staff, provide supporting information
221 for the financial, operational, and accounting results reflected in the surveillance reports.

222 (2) On or after December 31, 2025, the commission shall prepare and file with the
223 general assembly a report on the impact of the rate case modernization process on gas
224 corporations and their customers. Participating gas corporations shall cooperate in good
225 faith to provide the data necessary for the preparation of the report required by this
226 subsection.

227 5. (1) As part of the initiating general rate case proceeding, the commission shall
228 approve a revenue stabilization mechanism to address the over- or under-recovery of
229 revenue due to weather and conservation-related changes in usage by residential customers
230 and nonresidential customers with annual usage equivalent to or less than 20,000 Dth.

231 (2) The adjustment shall utilize a deferral account, with interest applied at the gas
232 corporation's short-term cost of debt, to track and book as a regulatory liability or asset,

233 as applicable, any excessive or deficient revenue due to a change in the assumed commodity
234 use per customer established in the periodic rate proceeding. Such deferral account shall
235 amortize the difference on an earnings-neutral basis and be excluded from the earnings
236 test. No adjustment will be made for a variance in the determinants based on number of
237 customers.

238 (3) Rates shall be adjusted by the amount necessary to return to or recover from
239 customers over the next twelve-month period the difference between the per customer
240 revenues actually billed by the gas corporation during the most recent updated test year
241 for the customers identified in subdivision (2) of subsection 5 of this section and the per
242 customer revenues authorized in the corporation's initiating general rate case proceeding
243 or periodic rate review proceeding for such customers. The billing determinants used to
244 set rates for such customers in the initiating general rate case proceeding or periodic rate
245 review proceeding shall be compared to the billing determinants realized during the
246 updated test year for those same customers to determine the amount of the necessary
247 adjustment. Revenue variations accounted and adjusted for in the gas corporation's
248 purchased gas adjustment and actual cost adjustment rates and ISRS charges shall not be
249 considered.

250 6. (1) At least forty-five days prior to the end of each updated test year, the gas
251 corporation shall file tariffs, rate schedules, and minimum filing requirements, including
252 full and complete schedules and supporting documentation, to be used to establish and
253 allocate the revenue requirement to be reflected in rates in the annual true-up. Any rate
254 changes resulting from such filing shall be placed into effect on an interim, subject to
255 refund basis on the date following the end of the current updated test year.

256 (2) The gas corporation's annual true-up filing shall be based upon the most recent
257 three quarters of information on the gas corporation's books and a pro forma forecast for
258 the remaining quarter. Such forecast shall be of sufficient line-item detail to permit
259 adequate review by staff, and updated actual results shall be filed at least thirty days
260 before staff's recommendation is due. Any supporting information that is proprietary or
261 confidential may be submitted on a confidential basis pursuant to the commission's rules
262 governing such matters. The gas corporation shall also submit with the filing supporting
263 accounting schedules showing how the revenue requirement was calculated in accordance
264 with the requirements of this section and the foundational elements approved in the initial
265 general rate proceeding or the most recent periodic rate review proceeding. Minimum
266 filing requirements shall include:

267 (a) A full and complete set of financial reports for the gas corporation's regulated
268 Missouri utility operations for the updated test year as such financial reports are finalized

269 based on actual results, including the income statement, balance sheet and cash flow
270 statement with line-item detail matching the level of the FERC Form-2 or annual
271 distribution utility report provided to the Missouri commission. The financials should be
272 adjusted to reflect the application of the foundational elements approved in the initiating
273 general rate proceeding or the most recently concluded periodic rate review proceeding;

274 (b) Updated regulatory assets and liabilities and cost stabilization reserve amounts,
275 along with full and complete schedules of ending balance of each asset or liability, whether
276 rate base treatment is afforded, and the annual amortization amount to include in rates;

277 (c) Updated rate base, as defined in subsection 1 of this section;

278 (d) A full and complete accounting and description of updated ineligible operating
279 expenses that match the category or type of ineligible operating expenses defined in the
280 periodic rate review proceeding;

281 (e) A full and complete set of cost of service schedules normally provided in a rate
282 case along with any detailed schedules used to annualize, normalize or otherwise adjust
283 each updated distribution revenue, updated O&M expense, updated other expense and
284 updated cost of capital item for rate making purposes; and

285 (f) A full and complete schedule for the earnings test performed using the above
286 schedules and amounts. If the return achieved in the updated test year exceeds or falls
287 below a range of fifty basis points above and below the updated return on equity, this test
288 will determine the increase or decrease to the revenue requirement necessary to bring the
289 return back to the updated return on equity, subject to the annual rate cap. The updated
290 return on equity shall first apply adjustments based on the results of the performance
291 measurement indicators and capital market changes, as follows:

292 a. Performance measurement indicators adjustments shall compare performance
293 achieved during the updated test year for each metric to the benchmark range of expected
294 performance approved in the most recent periodic rate review proceeding. For each
295 instance in which the gas corporation's performance exceeds the benchmark range of
296 performance for the metric, five basis points shall be added to the updated return on equity
297 used for the earnings test in the current annual true-up. For each instance in which the gas
298 corporation's performance falls below the benchmark range of performance, five basis
299 points shall be subtracted from the updated return on equity used for the earnings test in
300 the current annual true-up. No change in the updated return on equity shall be made for
301 a performance level that falls within the benchmark performance range. To the extent the
302 gas corporation's performance in relation to a specific metric was adversely affected
303 during the updated test year by significant changes in its operational systems or processes
304 done to enhance the quality of utility service or by extraordinary events beyond the gas

305 corporation's control, then no adjustment for that metric shall be made to the updated
306 return on equity;

307 **b. The updated return on equity used for the earnings test in the current annual**
308 **true-up shall be adjusted for capital market changes by comparing the starting benchmark**
309 **capital market rate determined in the initiating general rate case proceeding or periodic**
310 **rate review proceeding to any increase or decrease in the twelve-month average of the**
311 **thirty-year United States treasury bond yield during the applicable updated test year, and**
312 **the difference shall be applied to adjust the updated return on equity;**

313 **c. A full and complete calculation of the cost management accountability**
314 **mechanism, comparing achieved updated O&M expense during the updated test year to**
315 **the performance benchmark O&M expense level determined at the initiating general rate**
316 **case proceeding or the most recent periodic rate review proceeding. An update to that**
317 **benchmark shall be applied using an inflation factor equal to the CPI-U factor for the**
318 **updated test year or one percent, whichever is greater. To the extent the updated O&M**
319 **expense exceeds or falls below the updated performance benchmark by more than one**
320 **percent, half of that difference shall be credited or charged to customers. Such cost**
321 **management accountability credits or charges shall be excluded from the earnings test, as**
322 **inclusion of such would offset the impact of the mechanism. If the grow & share provision**
323 **is in effect, this benchmark shall not be reset for ten years, and after year ten the**
324 **benchmark used for the annual true-up shall be reset based on the updated O&M expense**
325 **in the then preceding year; and**

326 **d. The tariffs and rate schedules filed shall reflect the foundational elements**
327 **approved in the initiating general rate case proceeding or the most recent periodic rate**
328 **proceeding, including billing determinants and class cost of service. These shall be used**
329 **to implement the revenue requirement resulting from application of the earnings test, as**
330 **well as the CMA credit or charge, in accordance with the method approved by the**
331 **commission for allocating any increase or decrease in such between and within each**
332 **customer class.**

333 **(3) Within four months of the filing of the annual true-up, the commission staff**
334 **shall submit its recommendation verifying that the revenue requirement was calculated**
335 **and implemented in conformance with this section and based on prudently incurred costs**
336 **or identifying with specificity any ways in which the update filing was not in conformance**
337 **with the requirements of this section.**

338 **(4) If the parties to the annual true-up are unable to jointly recommend a revenue**
339 **requirement to the commission within twenty days of the filing of staff's report, the**
340 **commission shall establish a procedure schedule so that any contested issues can be**

341 adjudicated by the commission and a report and order resolving such differences issued
342 within five months after the filing of the staff's report. The commission shall in such report
343 and order make permanent the interim rates filed by the gas corporation to the extent such
344 rates have been calculated in compliance with the requirements of this section. Any
345 adjustments made by the commission to the revenue requirement shall be reflected in the
346 next annual true-up filing made by the gas corporation, subject to judicial review of the
347 commission's determinations in accordance with applicable law.

348 (5) The revenue requirement to be in effect for the next annual period shall include
349 a rebasing of all ISRS charges implemented and in effect during the updated test period.
350 Any gas corporation which has elected to participate in the annual true-up shall be
351 permitted to make ISRS filings under sections 393.1009 to 393.1015 so to continue the
352 timely recovery for utility plant and pipeline system replacement investments covered by
353 ISRS and shall submit a schedule reflecting its estimated capital expenditures for
354 ISRS-eligible projects for the following annual period. Such schedule shall not be binding
355 on the gas corporation or be construed as establishing any standard of prudence. The
356 annual rate cap, timing, and periodic rate proceeding requirements, as well as rebasing
357 ISRS charges set forth in this subsection, shall be substituted for any similar rate caps,
358 ISRS rebasing, or general rate proceeding requirements mandated by sections 393.1009
359 to 393.1015.

360 (6) Any annual rate adjustment resulting from the application of the earnings test
361 shall not, when combined with any ISRS charges reset in the annual true-up during the
362 same annual period, exceed an annual increase to the revenue requirement amount equal
363 to three and one-half percent of the prior year's Missouri gross jurisdictional revenues, and
364 no more than an annual average of three percent for any four-year period of annual
365 true-ups. In addition to the rate adjustment, the gas corporation shall be permitted to
366 collect any applicable gross receipts tax, sales tax, or other similar pass-through taxes, and
367 such taxes shall not be counted against the annual rate cap. Any costs not recovered as a
368 result of the annual rate cap limitation on rate adjustments may be deferred, at a carrying
369 cost each month equal to the utility's net of tax, long-term cost of capital, for recovery in
370 a subsequent year's rate update or proceeding.

371 7. Within six months of the effective date of this section, any participating gas
372 corporation may file, and the commission shall approve, tariffs authorizing programs
373 designed to retain or attract businesses, jobs, and investment within the state of Missouri.
374 Such tariffs shall include provisions that:

375 (1) Permit the gas corporation to provide discounts to its rates and charges for
376 utility service as necessary to retain or attract such customer or customers; provided that,
377 the discounted rates or charges are sufficient to:

378 (a) Recover the depreciation, property tax, and carrying cost of any incremental
379 investment made by the gas corporation to retain or attract such customer or customers;

380 (b) Recover the incremental variable costs incurred to serve such customer or
381 customers; and

382 (c) Make some positive contribution to the gas corporation's fixed costs of serving
383 other customers;

384 (2) Provide that the rates approved by the commission during the annual true-up
385 shall reflect the actual annualized revenues being received under the discounted rate;

386 (3) Permit the gas corporation to provide long-term financing for the up-front cost
387 of extending gas service to customers or residential or commercial developments with such
388 costs to be recovered through a surcharge of no more than ten years on the rates paid by
389 those customers benefitting from the extension of gas service.

390 8. A participating gas corporation may voluntarily terminate its participation in
391 the update process at the conclusion of any updated test year. Upon termination, whether
392 by operation of law, voluntary action of a participating gas corporation, or for any other
393 reason, the then current rates established under this section shall remain in effect until
394 such time as new rates are set under section 393.150, subject to any adjustment that may
395 be made to such rates based on the commission staff's audit of the last updated test year.

396 9. (1) In order for a gas corporation to file a petition with the commission to
397 establish or change an ISRS, such corporation shall, within twelve months of the effective
398 date of the provisions of the preceding subsections, develop and file with the commission
399 a pre-qualification process for contractors seeking to participate in competitive bidding to
400 install ISRS-eligible gas utility plant projects. Under the pre-qualification process, the gas
401 corporation may specify certain eligibility requirements typically accepted by the industry
402 including, but not limited to, experience, performance criteria, safety policies, and
403 insurance or indemnification requirements to be met by any contractor seeking to
404 participate in competitive bidding to install ISRS-eligible gas utility plant projects.
405 Contractors that meet the pre-qualification criteria set by the gas corporation shall be
406 eligible to participate in the competitive bidding process for installing ISRS-eligible gas
407 utility plant projects, with the winning bid awarded to the contractor making the overall
408 lowest and best bid, as defined by subsection 2 of section 34.010.

409 (2) The gas corporation shall file by January 1, 2019, a verified statement with the
410 commission confirming that it has in place a pre-qualification process for the competitive

411 **bidding of ISRS-eligible gas utility plant projects, and that such process conforms with the**
412 **requirements of this section. The commission shall have the authority to verify the**
413 **statement to ensure compliance with this section. After January 1, 2019, the gas**
414 **corporation shall submit with each petition filing to establish or change an ISRS a verified**
415 **statement confirming that it is using a competitive bidding process for no less than ten**
416 **percent of the combined external installation expenditures made by the gas corporation's**
417 **operating units in Missouri for installing ISRS-eligible gas utility plant projects and that**
418 **such process conforms with the requirements set forth in this section. The commission shall**
419 **have the authority to verify the statement to ensure compliance with this section.**

420 **(3) Nothing in this section shall be construed as requiring any gas corporation to**
421 **use a pre-qualified contractor or competitive bidding process in the case of an emergency**
422 **project, or to terminate any existing contract with a contractor prior to its expiration;**
423 **provided, however, that the use of any existing contractor that has a preexisting contract**
424 **with a gas corporation for the installation of ISRS-eligible gas utility plant projects shall**
425 **not qualify as fulfilling the ten percent requirement set forth in this section beyond**
426 **December 31, 2017. For contractors not qualifying through the competitive bid process, the**
427 **gas corporation, upon request from the contractor, shall provide information from the**
428 **process in which the contractor can be informed as to how to be better positioned to qualify**
429 **for such bid opportunities in the future.**

430 **(4) By December 31, 2025, and annually thereafter, the commission shall submit a**
431 **report to the general assembly on the effects of this section, including gas corporation**
432 **compliance, potential legislative action regarding this section, the costs of installing**
433 **ISRS-eligible gas utility plant projects prior to the implementation of this section compared**
434 **to after the implementation of this section, and any other information regarding the**
435 **processes established under this section that the commission deems necessary.**

✓