COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1137-02
Bill No.: HB 403
Subject: Energy; Public Service Commission; Utilities
Type: Original
Date: February 17, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	($518,643)	($455,254)	($138,539)
Total Estimated Net Effect on General Revenue Fund	**($518,643)**	**($455,254)**	**($138,539)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Public Service Commission Fund*	$0	$0	$0
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

*Assumes costs to the Fund of $822,014, $776,958, and $796,890 and offsetting increases in assessments against regulated utilities in the next three fiscal years.

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Economic Development, Office of Public Counsel (OPC)** assume this proposed legislation would significantly increase the work load associated with fuel expenses for electric utilities. Currently, fuel is primarily addressed only during rate cases which have a frequency of once every 2-3 years per electric utility. This legislation would increase those reviews to once a month for each utility (4 major electric utilities, one of which has 2 separate divisions).

This bill increases the work load of the OPC. A Fuel Adjustment Clause (FAC) eliminates certain economic incentives associated with generation resource planning, fuel procurement procedures, and generating unit loading procedures; thus increasing the need to ensure ratepayers do not pay the higher resulting costs.

OPC would require an engineer or an economist, one accountant, and an additional support staff person to handle the annual duties created by this bill. This bill would also require OPC to purchase Economic Electric Dispatch Model Software which would cost approximately $40,000. (This is the amount the Public Service Commission paid for theirs.) The annual license for the Fuel Model would run in the neighborhood of $4,000 (price previously quoted from the Public

ASSUMPTION (continued)

Service Commission's existing annual license cost). OPC assumes the FY 2004 cost for the license fee would be due July/August, 2003.

OPC assumes this proposal does not require a rate case prior to implementing a FAC, referring only to the cost of said items currently reflected in permanent base rates. However, the current base rates of each of the four major electric utilities were set based on negotiated settlements. Said settlements specifically excluded specific findings as to the level of any specific cost that made up the overall cost of service. Absent a specific finding as to the level of costs currently reflected in base rates, a determination of a change from an unspecified level cannot be made. A rate case for each company would be required to determine specific fuel costs in order to prevent the FAC from providing double recovery from ratepayers of these costs. OPC would need to hire "fuel consultants" for the rate case necessitated by this bill, for each electric company, at $40,000 per audit. Furthermore, for each necessary rate case, the office would need to hire outside experts in each of the following disciplines: outside auditors (estimated at $80,000 per case); financial analysts ($20,000); and rate design experts ($20,000) totaling $160,000 per case for outside consultants.

This is a one time expense associated with each company filing a rate case in order to determine base fuel costs. OPC's assumption is that two cases will occur immediately and two cases will follow in the subsequent fiscal year.

As to space and accommodations for 3 new employees within the OPC, current workspace would have to be reorganized. Cubicles and furnishing would need to be furnished for new technical personnel. A cubicle already exists for the clerical position. Also necessary equipment would include three computers, plus an additional printer, copy machine and facsimile machine.

The Public Utility Engineer/Economist would be needed to perform economic electric dispatch modeling and resulting fuel and purchased capacity costs of each utility to determine the accuracy of each company's request to recover these costs, and to investigate purchased capacity and energy costs to determine whether the utility performed in a prudent and reasonable manner in purchasing capacity and energy. These duties would be performed on an annual basis.

OPC would need one additional Public Utility Accountant I to collect and correlate the additional data associated with fuel and purchase power. Also, this accountant would have to perform audits on the fuel purchasing decisions of the company. This includes the potential twelve filings made per year per company, plus a true-up audit to determine the actual purchasing activities.

ASSUMPTION (continued)

OPC already experiences a low support staff/professional ratio. With the addition of two full-time technical positions, OPC's current two support positions would be extremely burdened with the additional duties this would incur. OPC assumes an additional support staff position would be within the best interests of the OPC in order to maintain the level of support required to existing and requested professional/technical personnel.

Because the bill would be an emergency act, OPC assumes the additional FTEs and additional resources would be implemented on an emergency basis.

Oversight has, for fiscal note purposes only, changed the starting salary for the three additional OPC staff requested to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

Officials of the **Department of Economic Development, Public Service Commission (PSC)** assume electrical corporations, as defined in Section 386.020, RSMo (not in Section 386.010, RSMo as erroneously appears in SB 278) would be allowed to recover all of their reasonably and prudently incurred costs for natural gas and purchased electrical energy for retail customers through adjustments in energy rates outside of rate cases. PSC assumes this would result in a PGA/ACA process like the one that exists for natural gas utilities.

PSC assumes customers of the electric corporations that fall under this bill could be subjected to energy rates that vary each month. This would remove some of the risk that these utilities face for under recoveries of energy costs. Electric corporations would monthly provide energy adjustment reports, and possibly adjustment filings, and would be subject to true-up and prudency audits regarding their natural gas and purchase power costs.

The proposed bill would represent a significant increase in effort regarding regulation of the electric corporations, as defined in Section 386.010, RSMo in the state of Missouri. Each of PSC's electric corporations would file, by the 15th of each month, an energy adjustment report. Each of these reports would include the calculation of the next month's energy adjustment rate. This represents over 70 filings per year with the PSC. Any disagreements between the parties on the assumptions used to develop the rate would need to be addressed in a highly expedited manner to have a PSC order in the 30 days required by the bill. In addition to these energy adjustment rate filings, true-up audits regarding the reasonableness and prudency of natural gas costs and purchased electric energy costs would be required. The number of generation units, the

ASSUMPTION (continued)

options each of them has for dispatch, coal generation vs. natural gas and/or purchased power decisions, build vs. buy options, transmission constraints, hedging efforts, natural gas transmission contract options, and electric transmission capacity for reliability and market access would all be important considerations in looking at the prudency of natural gas and purchased power decisions. PSC estimates the additional staff needed to address this increase in workload:

1 Utility Regulatory Manager
1 Regulatory Engineer II
2 Rate & Tariff Examiner II
1 Utility Regulatory Auditor IV
2 Utility Regulatory Auditor III
1 Administrative Law Judge
1 Senior General Counsel
2 Consumer Services Specialist I/II

PSC assumes the current natural gas PGA process results in a significant number of phone calls, especially during price spikes. This bill could potentially affect a larger number of customers than are now affected by natural gas changes in rates.

Oversight has, for fiscal note purposes only, changed the starting salary for the twelve requested PSC staff positions to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

Oversight assumes the Public Service Commission would adjust assessments against regulated utilities to offset increased costs due to this proposal; however, the amount of assessment against regulated utilities is limited to one-forth of 1 percent (.0025) of gross intrastate operating revenues of all utilities under PSC jurisdiction. If assessments are insufficient to cover PSC costs, then the PSC would have to seek an increase in the amount which may be assessed or seek funding for the PSC from different sources.

FISCAL IMPACT - State Government	FY 2004	FY 2005	FY 2006
GENERAL REVENUE FUND			
Cost - Office of Public Counsel			
Personal Service (3 FTE)	($90,516)	($92,779)	($95,098)
Fringe Benefits	($36,632)	($37,548)	($38,486)
Expense and Equipment	($391,495)	($324,927)	($4,955)
Total Cost - OPC	($518,643)	($455,254)	($138,539)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($518,643)**	**($455,254)**	**($138,539)**
PUBLIC SERVICE COMMISSION FUND			
Income - Increased Assessments on Regulated Utilities	$822,014	$776,958	$796,890
Cost - Public Service Commission			
Personal Service (12 FTE)	($469,008)	($480,733)	($492,752)
Fringe Benefits	($189,808)	($194,553)	($199,417)
Expense & Equipment	($163,198)	($101,672)	($104,721)
Total Cost - PSC	($822,014)	($776,958)	($796,890)
ESTIMATED NET EFFECT ON PUBLIC SERVICE COMMISSION FUND	**$0**	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2004	FY 2005	FY 2006
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses served by these electric corporations could see their rates for energy vary each month.

DESCRIPTION

This proposal allows electric corporations to recover prudently incurred costs for natural gas and purchased electricity through energy adjustment rate schedules. The schedules may be filed with the Public Service Commission separately or as part of a general rate proceeding. The PSC must allow modification of the rates as frequently as every 30 days to reflect changes in natural gas and purchased electricity costs that are not reflected in the corporation's base rates. The PSC will establish a procedure to provide customer credits or refunds for any over-estimated costs and collections.

Each corporation that has an energy adjustment rate schedule on file with the PSC will submit a monthly adjustment report including calculation of the next month's energy adjustment rate. The PSC may only examine the calculations for accuracy and may not consider other costs or overall rates. The PSC's decision on each proposed rate adjustment will become effective no later than 30 days after filing. Rates are not subject to suspension by the PSC.

The bill contains an emergency clause.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development
Office of Public Counsel
Public Service Commission

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