

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1711-01
Bill No.: HB 632
Subject: Energy; Public Service Commission; Utilities
Type: Original
Date: March 17, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	(\$97,387)	(\$101,638)	(\$103,180)
Total Estimated Net Effect on General Revenue Fund	(\$97,387)	(\$101,638)	(\$103,180)

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 \$204,559, \$226,829, and \$232,612 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 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on <u>All</u> 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 Section 393.1010 of this proposed legislation would increase the work load associated with the review of electric company investments and expenses for the four major electric utilities (one having multiple operating divisions with separate tariffs). This bill would provide for, on a stand-alone basis, reviews and investigations of various investments in plant in service and related expenses along with investments and investment related expenses in security measures and direct expenses for security measures. These investigations are normally performed during rate cases whose frequency ranges from once a year to up to once every seven to ten years depending on the utility involved. This bill changes the existing regulatory paradigm by replacing financial incentives, similar to competitive markets, with increased regulatory oversight to ensure efficient performance by monopoly providers of essential utility services to our state. This increase will result in additional staff requirements and consulting funds for specialized expertise.

Section 393.1010 would create an additional procedure for electric utilities to request rate increases for "security measures". OPC anticipates that it would need to participate in 5 additional cases before the PSC per year. This is based on the assumption that there would be one case per year for each regulated electric company (4), or division thereof. OPC does not currently have sufficient resources or expertise to handle this additional workload.

ASSUMPTION (continued)

This bill increases the workload for OPC. This bill would result in increased bills for all customer classes that receive service from Missouri electric utilities. This bill requires customers to pay higher rates without consideration of offsetting factors which are directly created by the investments of the electric company. This bill would allow electric utilities to raise rates and thereby customers bills. This would require OPC to investigate, and in all likelihood, file additional compliant cases in order to bring rates back into balance with the necessary overall revenues. This will effectively shift the burden of proof requirements onto OPC (as the representative for utility customers) to propose just and reasonable rates. This bill also creates the potential for unforeseen complex issues to develop in these complaint cases due to the interplay of the single-issue nature of the security related increases, or electric infrastructure rate increases and general rate cases (and complaint cases to reduce rates).

This bill also creates the probability of a double recovery of certain security costs in that the bill does require all security costs incurred after September 11, 2001, to be included in this mandated surcharge. The bill does not allow consideration of the security cost levels currently reflected in electric rates. This bill would also constitute a change in regulatory law that would void certain agreements with utilities and thus eliminate agreed upon future rate decreases for Missourians. Thus more frequent general rate cases would be necessary to eliminate the excess rates paid by small customers. These cases would most likely need to be initiated by OPC and require additional expert testimony to provide the requisite burden of proof.

The current base rates of each of the four major electric utilities were set based upon negotiated settlements. Said settlements specifically excluded specific findings as to the level of any specific cost that made up the overall cost of service. Furthermore, the signatories to the agreement expressly stated they will NOT assert to any such findings. 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.

The Office of the Public Counsel would require one additional FTE (engineer) as a result of the annual duties created by this legislation. In addition, OPC would need to retain the specialized expertise of outside consultants to provide input in the area of reasonable and prudent security measures and costs. OPC anticipates the need to perform approximately five additional investigations per year, along with the possible complaint case if double recovery results as previously discussed. OPC would therefore also require approximately \$40,000 in consulting expenses to perform these audits and investigations of the overall cost of service, this being the most economical method of addressing this need.

ASSUMPTION (continued)

As to space and accommodations for this new FTE within the Office of Public Counsel, current workspace would have to be reorganized. A cubicle and furnishings would need to be furnished for this new technical position. Also, necessary equipment would include one new computer.

An engineer would be required to analyze the various planning and implementation procedures associated with the security measures. This position could also be utilized to provide testimony on the prudence of security measures and relating to the relocation issues mentioned in Section 393.1010. In addition, the bill provides for expedited PSC review of any matter associated with questions of prudence of the security procedures. An outside consultant would not likely be able to respond in time given the time periods provided for in the bill, the learning curve associated with each utilities specific circumstances, and the time period related to procuring the services of outside consultants. A consultant would be necessary to address specialized security measures on an as needed basis and assist on any complaint proceeding initiated by the OPC. The number of cases an engineer would be involved in and would have to address would be consistent with the participation previously stated.

Oversight has, for fiscal note purposes only, changed the starting salary for the 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 electric corporations could apply for recovery of costs related to certain security measures through surcharges between rate cases.

PSC assumes this legislation would permit, upon application, an electric corporation to recover actual, prudently incurred costs for certain security measures to protect generation, distribution, and transmission infrastructure through surcharges between rate cases. Additional staff resources would be needed to address these applications. A description of the needed staff and their responsibilities is provided below.

1 Regulatory Engineer II - Responsible for assessing security measures described in applications from electric corporations. Assessments would include the need for the project(s) and how they relate to computer systems for protection of generation, distribution, transmission and related operations and control systems.

ASSUMPTION (continued)

1 Regulatory Auditor IV - Responsible for auditing actual costs incurred by the utility for security measures. Auditor would also review prudence of expenditure levels and track related issues in each electric corporation's rate case.

1 Regulatory Law Judge - Responsible for overseeing case processing for the PSC, conducting hearings, and issuing orders regarding intervention, protection of sensitive data, filing deadlines, conferences, final decisions, etc.

Methodology:

1 Utility Reg. Engineer II @ 10% travel = 26 days x \$75/day = \$1,950

1 Utility Reg. Auditor IV @ 10% travel = 26 days x \$75/day = \$1,950

1 Regulatory Law Judge @ 10% travel = 26 days x \$75/day = \$1,950

Vehicle Expense: 5,000 miles x 33.5 cents per mile = \$1,675

TOTAL: \$7,525

Oversight has, for fiscal note purposes only, changed the starting salary for the three 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-fourth 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.

<u>FISCAL IMPACT - State Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
GENERAL REVENUE FUND			
<u>Cost</u> - Office of Public Counsel			
Personal Service (1 FTE)	(\$35,496)	(\$43,660)	(\$44,751)
Fringe Benefits	(\$14,365)	(\$17,669)	(\$18,111)
Expense and Equipment	<u>(\$47,526)</u>	<u>(\$40,309)</u>	<u>(\$40,318)</u>
Total Cost - OPC	<u>(\$97,387)</u>	<u>(\$101,638)</u>	<u>(\$103,180)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$97,387)</u>	<u>(\$101,638)</u>	<u>(\$103,180)</u>
PUBLIC SERVICE COMMISSION FUND			
<u>Income</u> - Increased Assessments on Regulated Utilities	\$204,559	\$226,829	\$232,612
<u>Cost</u> - Public Service Commission			
Personal Service (3 FTE)	(\$118,070)	(\$145,226)	(\$148,856)
Fringe Benefits	(\$47,783)	(\$58,773)	(\$60,242)
Expense & Equipment	<u>(\$38,706)</u>	<u>(\$22,830)</u>	<u>(\$23,514)</u>
Total Cost - PSC	<u>(\$204,559)</u>	<u>(\$226,829)</u>	<u>(\$232,612)</u>
ESTIMATED NET EFFECT ON PUBLIC SERVICE COMMISSION FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
FISCAL IMPACT - Local Government			
	FY 2004 (10 Mo.)	FY 2005	FY 2006
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses served by these electric corporations could see their rates for energy increase.

DESCRIPTION

This proposal requires the Public Service Commission to allow electric utilities to recover from customers prudent costs for security measures and insurance incurred after September 11, 2001. To be eligible, expenditures must have been reasonably necessary to comply with federal and state requirements and guidelines. Requests for cost recovery are confidential and subject to protective order of the PSC.

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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Director
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