

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1123-03
Bill No.: HCS for HB 398
Subject: Energy; Public Service Commission; Utilities
Type: Original
Date: March 29, 2013

Bill Summary: This proposal allows electric corporations to recover costs for infrastructure replacement projects.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
Total Estimated Net Effect on General Revenue Fund	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Public Service Commission Fund	(\$185,652)	(\$222,113)	(\$224,349)
Total Estimated Net Effect on Other State Funds	(\$185,652)	(\$222,113)	(\$224,349)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 7 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Public Service Commission Fund	3 FTE	3 FTE	3 FTE
Total Estimated Net Effect on FTE	3 FTE	3 FTE	3 FTE

Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Local Government	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)

FISCAL ANALYSIS

ASSUMPTION

According to officials from the **Department of Economic Development - Office of Public Counsel (OPC)**, this bill will create significant additional responsibilities for OPC staff requiring the addition of 3 FTE that have specific professional expertise to address the complex legal, engineering and financial issues that will be raised by this legislation. This legislation significantly expands the service territories that could face rate increases and also expands existing statutory authority. This expansion results in new regulatory issues currently not addressed. The legislation will require additional mandatory rate cases which are necessary in order to consider all relevant factors of a utility consistent with case law on setting rates.

This bill would expand existing legislation so that electrical corporations could take advantage of the opportunity to adjust rates and use the Infrastructure System Replacement Surcharge. Currently only gas corporations and one service area of one water corporation have this option. Prudency audits require significantly more analysis than investment verification analysis and require both financial and engineering analysis. Expansion of eligibility for the single issue rate mechanism provided under this legislation also increases the number of rate cases, thus requiring additional resources to analyze all utility costs and process the rate case before the Public Service Commission.

According to officials from the **Office of Secretary of State (SOS)**, many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS's office is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to Secretary of State's office for Administrative Rules is less than \$2,500. SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what their office can sustain with their core budget. Therefore, SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal with core funding. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

Officials from the **Department of Economic Development - Public Service Commission,**

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ASSUMPTION (continued)

Department of Natural Resources, Department of Revenue, Department of Transportation, and the Joint Committee on Administrative Rules assume the proposal would not fiscally impact their respective agencies.

Oversight assumes this proposal could result in an unknown rate increase or an infrastructure system replacement surcharge (ISRS) for utilities serving state government, local political subdivisions, and small businesses. However, petitions would still have to be approved by the Public Service Commission. Oversight will range fiscal impact from \$0 (assuming no rate cases are heard and/or approved or no ISRS surcharges are approved) to (Unknown) to reflect approved rate cases or ISRS surcharges.

<u>FISCAL IMPACT - State Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
GENERAL REVENUE			
<u>Costs - State Agencies - Potential for increased electric rates or an infrastructure system replacement surcharge (ISRS)</u>	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>
PUBLIC SERVICE COMMISSION FUND			
<u>Costs - Office of Public Counsel (OPC)</u>			
Personal Service	(\$120,990)	(\$146,640)	(\$148,106)
Benefits	(\$61,396)	(\$74,412)	(\$75,156)
Equipment and Expense	<u>(\$3,266)</u>	<u>(\$1,061)</u>	<u>(\$1,087)</u>
Total Costs - OPC	<u>(\$185,652)</u>	<u>(\$222,113)</u>	<u>(\$224,349)</u>
FTE Change - OPC	3 FTE	3 FTE	3 FTE
ESTIMATED NET EFFECT ON PUBLIC SERVICE COMMISSION	<u>(\$185,652)</u>	<u>(\$222,113)</u>	<u>(\$224,349)</u>
Estimated Net FTE Change for Public Service Commission Fund	3 FTE	3 FTE	3 FTE

<u>FISCAL IMPACT - Local Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
LOCAL POLITICAL SUBDIVISIONS			
<u>Costs - Local Political Subdivisions -</u>			
Potential for increased electric costs or an ISRS	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>

FISCAL IMPACT - Small Business

This legislation could result in an increase in utility costs to small businesses and for all other customers, since the proposal provides the electric utilities mechanisms to raise rates for specific new investment costs.

FISCAL DESCRIPTION

Currently, gas corporations may file a petition with the Public Service Commission(PSC) for rate adjustments to recover costs incurred for infrastructure replacement projects. This act allows electrical corporations to follow a similar process to recover costs for infrastructure replacement projects. The types of costs that can be recovered include certain work on electric plants, certain capital projects undertaken to comply with environmental or safety regulations, and costs of facilities relocation due to public works projects.

No later than forty-five days prior to filing a petition with the commission to establish or change an ISRS, an electrical corporation shall submit to the PSC a preliminary list of projects costing in excess of five million dollars which are to be included in the ISRS filing. The list shall include a detailed description of each such project and each such project's cost.

This act details the process that an electric corporation and the PSC must follow in reviewing applications for infrastructure system replacement surcharges. If surcharges are approved by the PSC, this act requires electric corporations to submit to the PSC a reconciliation noting the differences between infrastructure system replacement revenues and appropriate pretax revenues.

In the event the PSC disallows, during a subsequent general rate proceeding, recovery of costs associated with eligible infrastructure system replacements and additions previously included in an ISRS, the electrical corporation shall credit the bills of its customers as of the time the credit is being given for the disallowed amount, plus interest at the electrical corporation's weighted

FISCAL DESCRIPTION (continued)

cost of capital from its last general rate proceeding, over a period of no longer than six months. Credits shall be allocated to each rate class in proportion to the ISRS charges applicable to that rate class during the period when the over-collections occurred. Each customer in a given rate class shall receive the same credit, and each credit shall be shown as a separate line item on customers' bills.

Additionally, this act sets the amount of revenues that may be produced from an electrical corporation's infrastructure system replacement at no less than one million dollars or half of 1% of the corporation's base revenue and no more than 8% of the corporation's base revenue. While the electric corporation is collecting an infrastructure system replacement surcharge, it may only adjust the rate two times every twelve months. If an electric corporation files a petition or change to an infrastructure system replacement surcharge, it shall not be considered an increase in the electric corporation's base rate.

§393.1215 shall terminate after August 27, 2025, unless reenacted by the General Assembly.

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
Public Service Commission
Office of Public Counsel
Department of Transportation
Department of Natural Resources
Department of Revenue
Joint Committee on Administrative Rules
Office of Secretary of State
Administrative Rules Division



Ross Strope
Acting Director

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