

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1626-02
Bill No.: HCS for HB 723
Subject: Public Service Commission; Utilities
Type: Original
Date: April 10, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	(\$507,859)	(\$157,846)	(\$161,818)
Public Service Commission Fund*	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> State Funds	(\$507,859)	(\$157,846)	(\$161,818)

* Assumes costs of \$441,576 in FY 02, \$413,314 in FY 03 and \$423,892 in FY 04 and an increase in the PSC assessment and appropriation, resulting in a net effect of \$0

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
None	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government	\$0	\$0	\$0

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

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of State Courts Administrator** assume the proposed legislation would have no fiscal impact on their agency.

Officials from the **City of Springfield** assume the proposed legislation would have no fiscal impact on their city because it would not apply to City Utilities of Springfield.

Officials from the **Department of Natural Resources (DNR)** assume this bill would allow for more frequent adjustments in the price of electricity based on the wholesale cost of natural gas and purchased electrical energy. The department does not anticipate a direct fiscal impact from this proposal. Changes in prices will affect the agency's utility bill. If changes are dramatic, the department may have to request additional resources.

DNR's Energy Center provides technical assistance to energy users. As the frequency of changes in the cost per unit of energy increases, customers will have an increased awareness of their exposure to the cost of this commodity.

Over the long-term, additional information on changes in price may result in an increased number of requests for technical assistance from the Department's Energy Center; however, the Department assumes the increase could be handled with existing resources.

Officials from the **Department of Economic Development - Office of Public Counsel (OPC)** assume they would require an engineer or an economist, an accountant, and an additional support staff person to handle the annual duties created by this bill. This bill would also require Public Counsel to purchase an economic electric dispatch model software which would cost approximately \$40,000. The annual license for the Fuel Model would cost approximately \$4,000. (Price quoted from Public Service Commission - existing annual license cost). As this bill is an emergency act and would be in full force upon its passage and approval, the need of the Office of the Public Counsel would be to hire the requested personnel with the passage of emergency appropriation to fund same.

The OPC would need to hire "fuel consultants" for the four rate cases mandated by this bill, one per electric company, at \$40,000 per audit. Furthermore, for each of the mandatory rate cases, 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. Therefore, the total for outside experts for the four, mandatory rates cases is \$640,000. This is a one time expense associated with each of the four companies filing their mandatory rate case. With the assumption that the language in the bill

ASSUMPTION (continued)

requires the companies to file their respective cases within 90 days and the bill is an emergency act and that the provisions set forth in the bill would be in full force upon its passage and approval, the needs for the OPC would also be deemed to be implemented as an emergency measure.

As to space and accommodations for three (3) new employees within the Office of Public Counsel, current workspace would have to be reorganized. Cubicles and furnishing would need to be furnished for three personnel. A cubicle for the clerical person is available. 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.

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

The OPC already experiences a low support staff/professional ratio. With the addition of three full-time technical positions the current two support positions would be extremely burdened with the additional duties this would incur. An additional support staff position will be within the best interests of the office in order to maintain the level of support required to existing and requested professional/technical personnel. Therefore, the OPC would need one (1) Clerk/Typist III.

Officials from the **Department of Economic Development - Public Service Commission** (PSC) assume they would need an additional seven (6) FTE to implement the proposed legislation. A Rate and Tariff Examiner I/II to review compliance with Commission rules and orders for natural gas purchased for electric generation and for the impact of the cost of natural gas on the purchase price of purchased energy for the six regulated utilities to determine the tariff filing among that should be collected by the utilities and to prepare recommendations for the tariff sheet approval process for twice-a-year collections. A 45-day period is allowed for determining the amount to be collected after the utility files such request.

The PSC would request a Utility Regulatory Engineer II to: 1) assist in developing criteria for procedures for companies to recover the cost of natural gas associated with the production of ASSUMPTION (continued)

electricity and the impact of the cost of natural gas on the purchased price of electric energy, 2)

develop reporting requirements for review by the rate and tariff examiner, and 3) assist in investigation of natural gas purchases and purchased energy and assist the Economist in modeling for fuel and purchased energy of each utility and provide this information to other staff involved in the audit to determine the accuracy of the company's request to recover these costs.

The PSC would request a Utility Regulatory Economist I to assist in the initial rate case to develop the base of purchased natural gas for generation and purchased energy, to assist in modeling the purchased natural gas for electric generation and purchased energy, and to lead in the development of rules and regulations necessary to carry out the requirements of the Commission in this bill.

The PSC would request a Utility Regulatory Auditor IV to assist in the initial rate cases to develop base of natural gas associated with the production of electricity to be included in the rates charged to retail customers regulated by the Missouri Public Service Commission. This person will participate in all subsequent rate cases to review and adjust the base of natural gas costs used in the production of electricity to be included in the rates charged to retail customers regulated by the Missouri Public Service Commission. In addition, this person will develop a recommended audit program for the review of the reasonableness and prudence of actual gas costs to be recovered under this legislation and will also evaluate and suggest, when appropriate, any alternative regulatory approaches or experiments that will ensure that consumers will pay no more than necessary. This person will lead all audits related to this legislation and would develop a recommendation regarding the data that will need to be incorporated in the Commission's rules to determine if a substantial possibility of over earnings exists related to the electric company operating under this statute.

The PSC would request a Utility Regulatory Auditor III to perform the semi-annual audits for Kansas City Power & Light, UtiliCorp's Missouri Public Service Division and UtiliCorp's St. Joseph Light & Power Division. This position will also audit the earnings surveillance data related to these companies that will be used to determine if a substantial possibility of over earnings exists.

A Consumer Service Specialist I would handle customer calls requesting information regarding the changes in the rates that are reflected in their bills. This legislation will allow two changes per year, but with 6 utilities, changes may be occurring monthly. These changes in rates will cause customers to seek information and advice regarding the validity of these charges.

ASSUMPTION (continued)

Methodology:

Travel Expense:

1 Rate and Tariff Examiner I/II @ 10% travel = 26 days x \$75/day	\$1,950
1 Utility Regulatory Engineer II @ 20% travel = 52 days x \$75/day	\$3,900
1 Utility Regulatory Economist I @ 10% travel = 26 days x \$75/day	\$1,950
1 Utility Regulatory Auditor IV @ 40% travel = 104 days x \$75/day	\$7,800
1 Utility Regulatory Auditor III @ 40% travel = 208 days x \$75/day	\$7,800
1 Consumer Services Specialist I @ 10% travel = 26 days x \$75/day	\$1,950
Subtotal:	\$25,350
Vehicle Expense: Mileage: 25,700 miles x 29.5 cents per mile	\$7,582

In reference to equipment requested by the OPC, **Oversight** eliminated the office equipment (copy machine and fax machine) since these three (3) staff members will be located in existing facilities.

Oversight assumes the FTE requested by the PSC would be located in existing facilities and has not included office space rental costs in the fiscal impact specifications below.

Oversight assumes that the Public Service Commission would adjust its assessments against regulated utilities to reflect increased costs due to this proposal; **however, the amount of those assessments is limited to one-fourth of one percent (.0025) of total gross intrastate operating revenues of all utilities under Commission jurisdiction. If the assessments can not cover Commission costs the Commission would have to seek an increase in the amount which may be assessed.**

Since the proposal contains an emergency clause, **Oversight** assumes supplemental appropriations would be sought by the PSC and the OPC.

Additionally, **Oversight** assumes that this proposal could result in increased utility costs for both state and local governments. However, that issue could be addressed during the budgetary process.

<u>FISCAL IMPACT - State Government</u>	FY 2002	FY 2003	FY 2004
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GENERAL REVENUE FUND

<u>FISCAL IMPACT - State Government</u>	FY 2002	FY 2003	FY 2004
<u>Cost</u> - Department of Economic Development (OPC)			
Personal Service (3 FTE)	(\$93,173)	(\$114,602)	(\$117,467)
Fringe Benefits	(\$31,055)	(\$38,197)	(\$39,152)
Expense and Equipment	<u>(\$383,631)</u>	<u>(\$5,047)</u>	<u>(\$5,199)</u>
Estimated Net Effect on GENERAL REVENUE FUND	<u>(\$507,859)</u>	<u>(\$157,846)</u>	<u>(\$161,818)</u>

PUBLIC SERVICE COMMISSION FUND

<u>Cost</u> - Department of Economic Development (PSC)			
Personal Service (6 FTE)	(\$266,800)	(\$273,469)	(\$280,306)
Fringe Benefits	(\$88,924)	(\$91,147)	(\$93,426)
Expense and Equipment	<u>(\$85,852)</u>	<u>(\$48,698)</u>	<u>(\$50,160)</u>
Total <u>Cost</u> - DED (PSC)	<u>(\$441,576)</u>	<u>(\$413,314)</u>	<u>(\$423,892)</u>

<u>Income</u> - Department of Economic Development (PSC)			
Assessment to utilities	<u>\$441,576</u>	<u>\$413,314</u>	<u>\$423,892</u>

Estimated Net Effect on PUBLIC SERVICE COMMISSION FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

This proposal could fiscally impact small businesses to the extent of increased utility expenses.

DESCRIPTION

This proposal would allow electrical corporations serving fewer than 300,000 retail electric customers in Missouri to timely recover reasonably and prudently incurred costs of the purchase of natural gas used in the production of electricity in plants which were in operation or for which construction was at least 30% complete on or before January 1, 2001.

The proposal would also allow recovery of costs of purchased electricity impacted by the cost of natural gas subject to the following limits: costs shall be fully recoverable for one year after the proposal becomes effective and 50% recoverable thereafter and the electrical corporation must clearly document the impact of the cost of natural gas on the purchase price of the electric energy. The recovery would be according to rate schedules approved by the Public Service Commission.

The rate schedules would be initially established pursuant to a general order of rate making.

Each electrical corporation would file updated schedules every six months, even if no change is sought, unless the schedules have been replaced by a general rate order within the last six months. The Public Service Commission (PSC) would review updated schedules separately from the general rate making process and rule upon them within 45 days of their being delivered to the PSC and the Public Counsel. If, in reviewing the update filing, the PSC finds a substantial possibility that the utility is over-earning, the Commission shall initiate a general rate order proceeding.

The Commission shall establish a process to "true-up" the recovery to refund any over-collection, with interest. Refunds would be processed during the next available monthly billing cycle. A utility could not make up for under-collection in previous adjustment periods. The PSC would establish a case for review of each adjustment period and those cases would be considered on an expedited basis. The Commission would rule within thirty days of a case being made.

A utility which files under this proposal within 90 days of the effective date may request, at the time of filing, that emergency rate schedules be established under the expedited 45 day process without waiting for the conclusion of the general rate making order. These requests shall follow the same process used for update filings and shall only be allowed if the natural gas price has changed by more than 25% since the corporation's latest rate case.

Nonprofit electrical corporations could to timely recover and pass through to customers the reasonably and prudently incurred costs for purchase and transportation of electric energy under an automatic adjustment provision.

DESCRIPTION (continued)

GVB:LR:OD (12/00)

The proposal 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
Department of Economic Development - Public Service Commission
Department of Natural Resources
Office of State Courts Administrator
City of Springfield



Jeanne Jarrett, CPA
Director
April 10, 2001