

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0983-05
Bill No.: Truly Agreed to and Finally Passed SS for SCS for SB 179
Subject: Public Service Commission; Utilities
Type: Original
Date: May 19, 2005

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
General Revenue	(\$71,757)	(\$35,801)	(\$36,571)
Total Estimated Net Effect on General Revenue Fund	(\$71,757)	(\$35,801)	(\$36,571)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
PSC Fund	\$0	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2006	FY 2007	FY 2008
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials with the **Department of Economic Development – Public Service Commission (PSC)** assume this legislation authorizes PSC to implement, as part of a rate case, recovery of reasonably and prudently incurred costs. Implementation of these provisions in the current regulatory process would involve an increase in fuel and purchased power review work as well as economic analysis and auditing.

PSC assumes the form by which the legislation is implemented would require reviews of fuel and purchased power filing, true-up audits and prudence audits. PSC is requesting 2 to 4 FTE to address this increase in workload. This is based on current agency resources to address the natural gas Purchased Gas Adjustment (PGA)/Actual Costs Adjustment (ACA) process that this legislation would create for the electric utilities. This number of FTE is based on using 40% of the current staffing required to support the PGA/ACA process with natural gas utilities since the number of electric utilities is smaller than the number of natural gas utilities and then assuming that some synergy can be achieved with existing staff. This comparison could be conservative since electric generation fuel and purchase power procurement is more complicated.

ASSUMPTION (continued)

FTE requested by PSC consist of:

- 1 Engineering Specialist III
- 1 to 2 Regulatory Auditors III
- 0 to 1 Special General Counsel

PSC assumes that costs of this proposed legislation would be assessed to regulated utility companies.

Officials with the **Department of Economic Development – Office of Public Counsel (OPC)**, assume this proposal would dramatically increase the number of regulatory proceedings in which it would need to participate in order to adequately represent utility consumers. OPC assumed that approximately 15 additional contested cases each year would require OPC auditing, analysis and litigation, requiring a Public Utility Engineer/Economist, Public Utility Accountant I, and an Assistant Public Counsel (and related equipment and expense).

OPC assumed the proposal would require it to purchase an economic electric dispatch model software which would cost approximately \$50,000. The annual license for the Fuel Model would cost approximately \$5,000.

Oversight has, for fiscal note purposes only, changed the starting salaries for the requested FTE 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.

The Oversight Subcommittee met on April 29, 2003, and voted to reduce the number of positions required to implement Perfected HS for HCS for HB's 404, 324, 403, 344, 426, & 541 (FN #1436-06 from the 2003 regular session), a proposal that included a provision similar to this legislation. The Subcommittee reduced the number of positions required to 0.5 FTE from the General Revenue Fund and 7.5 FTE from the Public Service Commission Fund, with commensurate reductions in the estimated costs for fringe benefits and equipment and expense.

Due the similarities between this proposal and the aforementioned FN #1436-06 from 2003, Oversight is reducing the number of required personnel to implement this proposal from 3 FTE to 0.5 FTE from the General Revenue Fund, with a commensurate reduction in estimated costs for fringe benefits and equipment and expense. The required number of positions funded by the Public Service Commission Fund stands within the parameters set

ASSUMPTION (continued)

by the Oversight Subcommittee's 2003 decision. Therefore, the required positions (2 to 4 FTE) from the Public Service Commission Fund will be included.

<u>FISCAL IMPACT - State Government</u>	FY 2006 (6 Mo.)	FY 2007	FY 2008
GENERAL REVENUE FUND			
<u>Cost – OPC</u>			
Salaries	(\$10,419)	(\$21,482)	(\$22,019)
Fringe Benefits	(\$4,445)	(\$9,164)	(\$9,393)
Equipment and Expense	(\$1,893)	(\$155)	(\$159)
Special Software	(\$50,000)	\$0	\$0
Annual Software License	<u>(\$5,000)</u>	<u>(\$5,000)</u>	<u>(\$5,000)</u>
<u>Total Cost – OPC</u>	(\$71,757)	(\$35,801)	(\$36,571)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$71,757)</u>	<u>(\$35,801)</u>	<u>(\$36,571)</u>
PSC FUND			
<u>Income – PSC</u>			
Assessments to recover regulation costs	\$74,608 to \$146,716	\$128,118 to \$256,235	\$131,354 to \$262,707
<u>Cost – PSC</u>			
Salaries	(\$40,716) to (\$81,432)	(\$85,153) to (\$170,306)	(\$87,282) to (\$174,563)
Fringe Benefits	(\$17,369) to (\$34,739)	(\$36,326) to (\$72,652)	(\$37,234) to (\$74,469)
Equipment and Expense	(\$16,523) to <u>(\$30,545)</u>	(\$6,639) to <u>(\$13,277)</u>	(\$6,838) to <u>(\$13,675)</u>
<u>Total Cost – PSC</u>	(\$74,608) to (\$146,716)	(\$128,118) to (\$256,235)	(\$131,354) to (\$262,707)
ESTIMATED NET EFFECT ON PSC FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2006 (6 Mo.)	FY 2007	FY 2008
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses could be affected by more frequent changes in electric rates and increases in rates when fuel and purchased power costs increase.

DESCRIPTION

The legislation provides the opportunity for any electrical corporation to make application to the Public Service Commission in order to utilize interim energy charges or periodic rate adjustments to recover costs of fuel and purchased power. The act allows the commission to include in such rate schedules features intended to provide incentives to improve efficiency and cost-effectiveness for the utility's fuel and purchased power procurement.

The act provides the opportunity for any electrical, gas or water corporation to make application to the public service commission in order to utilize periodic rate adjustments to recover costs related to environmental compliance. The costs here can be capital or expense. The act stipulates a cap on this rate adjustment, any such adjustment shall not exceed two and one-half percent per year. There is a carry over provision in the language, however any such carry over shall respect and stay within the limit set for the annual cap.

The act allows for limited adjustments for changes in customer usage for variations in weather and/or conservation.

The act provides the commission with the discretion to approve, modify or reject any adjustment mechanism after hearing and considering all relevant factors. The act lays out the standards by which any electrical, gas or water corporation must meet in order to have an adjustment mechanism approved by the commission:

- The mechanism is reasonably designed to provide the utility with a sufficient opportunity to earn a fair return on equity;
- The mechanism includes provisions for an annual true-up; correct any over or under collections through subsequent rate adjustments or refunds
- For any utility applying for a fuel or environmental cost mechanism, a rate case must be filed

DESCRIPTION (continued)

within four years from the commission's order implementing the mechanism. The act also modifies this time frame by adding language that would "stop the clock" if for some reason, the adjustment mechanism is prohibited; in other words, if you cannot use the mechanism for a certain period of time, that time does not count towards the four year limit.

–For any utility applying for a fuel or environmental cost mechanism, a prudence review shall accompany such a mechanism no less than every eighteen months, and shall require a refund of any imprudently incurred cost.

Any mechanism approved by the commission shall remain in effect until the commission orders otherwise. Any charges passed to the customer as a result of an approved mechanism shall be separately disclosed on each customer bill. The commission may take into account any business risk resulting from the mechanism in setting the corporation's allowed return. The act explicitly states that any decision made by the commission shall be binding for the entire term of the plan.

The act allows companies to apply for adjustment mechanisms prior to the promulgation of rules governing the application process by the commission, however, the act directs the commission to have these rules in place prior to any decisions being made with regard to these applications.

The act also directs the Public Service Commission to appoint a task force to study and make recommendations on the cost recovery and implementation of conservation and weatherization programs for electrical and gas corporations.

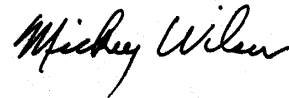
The effective date of the act is January 1, 2006.

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

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SOURCES OF INFORMATION

Department of Economic Development
Public Service Commission
Office of Public Counsel



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