

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5027-11
Bill No.: Perfected SS No. 5 for SB 564
Subject: Business and Commerce; Contracts and Contractors; Corporations; Economic Development; Energy; Environmental Protection; General Assembly; Public Service Commission; Utilities
Type: Original
Date: February 13, 2018

Bill Summary: This proposal modifies provisions relating to public utilities.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
General Revenue	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)
Total Estimated Net Effect on General Revenue	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Public Service Commission Fund	(\$148,141)	(\$173,208)	(\$174,867)
Total Estimated Net Effect on Other State Funds	(\$148,141)	(\$173,208)	(\$174,867)

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Public Service Commission Fund	2 FTE	2 FTE	2 FTE
Total Estimated Net Effect on FTE	2 FTE	2 FTE	2 FTE

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Local Government	\$0 or (Unknown)	\$0 or (Unknown)	\$0 or (Unknown)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development - Division of Energy (DE)** state that the DE participates in Public Service Commission (PSC) regulatory cases to evaluate issues from a formal state policy and planning perspective consistent with its interests in clean, affordable, abundant energy, and its efficient use. DE is active in cases before the PSC related to energy efficiency, renewable energy and changes in rate structures. The Comprehensive State Energy Plan prepared by DE in 2015 recommends reforming Missouri's utility ratemaking process and exploring mechanisms related to grid modernization activities and new business models and is engaged in discussions surrounding these efforts.

386.266: This provision allows electric utilities from January 1, 2019 to January 1, 2029 (in addition to gas corporations that may do so under current law) to apply to adjust rates outside of general rate proceedings to account for the increases or decreases in residential and commercial customer usage from weather and/or conservation that impact utility revenues. Quarterly surveillance reports would be required. It is assumed DE would be involved in rulemaking dockets, tariff and other related cases before the PSC that implement this provision and subsequent reconciliations to insure charges associated with reduced customer energy usage are appropriate.

393.1400: This provision requires electric utilities that defer and recover depreciation expense and return for certain qualifying electric plants to file 5-year capital investment plans (updating annually) for modernizing and securing infrastructure and subsequent annual reports of actual investments made. DE would participate in the review of the annual capital investment plans and reports related to grid modernization.

393.1610: Authorizes the Public Service Commission to approve electric utilities' investments in small-scale or pilot innovative technology projects, including but not limited to renewable energy, microgrids or storage, to increase their operating knowledge or operating efficiencies and that result in customer savings and benefits as the projects are scaled across the grid. DE would participate in proceedings related to these investments.

393.1665: This provision requires investments to be made by electric utilities in utility-owned solar facilities in Missouri or in adjoining states from the effective date of the proposal through 2023; the amount varies with the size of utility. DE would be involved in any tariff or proceedings related to development of such utility-owned solar facilities.

ASSUMPTION (continued)

393.1670: This provision requires electric utilities to offer solar rebates to its customers from 2019 - 2023 starting at 50 cents/kilowatt-hour decreasing to 25 cents and provides caps on maximum investments that can be paid for the rebates. DE would be involved in any tariff or proceedings related to solar rebates for customers.

The Division of Energy assumes it would participate in implementation of the provisions of this bill using existing resources. However, there would be a cumulative fiscal impact to DE if more than one bill related to PSC regulatory issues passes or if other provisions are included due to DE's involvement in such cases.

Officials from the **Department of Economic Development - Office of Public Counsel (OPC)** assume the following:

Section 386.266.3 - entities opting for the interim revenue stabilization mechanism, there will be an increased demand on personnel to monitor revenue levels and participate in truncated interim rate proceedings.

Section 393.137 - will create additional proceedings to determine the amount of applicable federal corporate income tax rate earnings should be subject to refund and/or deferred.

Section 393.1400 - creates new deferral mechanisms that will add millions of dollars not previously recovered in rates to rate cases.

Section 393.1610 - will authorize the Commission to approve pilot programs.

Section 393.1640 - will establish a new application process wherein certain customers can seek reduced rates for incremental load growth. This new proceeding will create additional proceedings before the Commission.

Section 393.1650 - establishes a new procedure requiring the Public Service Commission to preside over contractor qualification and bidding processes. This new proceeding will create new litigation.

Section 393.1655 -proposes additional deferral accounts which will create workload for auditors. 393.1665 requires electric utilities to build a certain amount of solar, by cost, and authorizes regulatory asset accounts to accumulate any unrecovered amounts.

Section 393.1670 - extends solar rebates.

ASSUMPTION (continued)

Given the potential for appellate work, and the authorization of multiple deferral accounts, an interim rate mechanism, renewal of solar rebates (which have been the subject of litigation) and requirements to build solar projects, new proceedings on labor contracts, and authorization for the PSC to open hearings on the federal corporate tax rate on investor-owned utilities, such a bill would likely require one attorney (at \$58,423 annually) and one accountant (at \$50,112 annually).

Officials from **Office of Administration - Facilities Management Design and Construction (OA-FMDC)** assume the following:

Section 393.1400 of the bill makes certain requirements regarding capital investments and the deferral of depreciation expenses in regulatory assets and their inclusion in the electrical company's rates in general rate proceedings.

Section 393.1655 of the bill requires and electrical corporation that elects to defer property tax and cyber and physical security expense, or defer certain depreciation and return for electrical corporations with more than 200,000 Missouri customers, except such rate may not be maintained if the Public Service Commission determine that a force majeure event has occurred. This limitation shall not affect the electrical corporation's ability adjust its non-base rates that arise from Commission-approved rate adjustment mechanisms during such 3 year period. The electrical corporation shall not pass on the cost to customers for amortized funds. This section also allows an electrical corporation electing to exercise an option under Section 393.1400, in specified circumstances, to recover up to 3% of a compound annual growth rate. In the last three fiscal years. FMDC has averaged \$14.4 million in expenditures. FMDC calculates the potential increased electric rate allowed by this bill (3%) would cost the division \$539,715.

The total fiscal impact of this bill to FMDC is \$585,218.

Oversight will show a cost of \$0 or (Unknown) for possible increases in utility costs because the 3% increase is a ceiling and because other provisions in the bill could also affect utility costs.

Officials from the **Attorney General's Office (AGO)** assume any potential cost arising from this proposal can be absorbed with existing resources. AGO may seek additional appropriations if the proposal results in a significant increase in cases.

In response to a previous version, officials from the **Department of Economic Development - Public Service Commission** assumed the proposal would have no fiscal impact on their organization.

ASSUMPTION (continued)

Officials from the **Department of Natural Resources** assume the proposal will have no fiscal impact on their organization.

<u>FISCAL IMPACT - State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
GENERAL REVENUE FUND			
<u>Cost - OA</u>	\$0 or	\$0 or	\$0 or
Possible increase in utility cost	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>
PUBLIC SERVICE COMMISSION FUND			
<u>Cost - OPC</u>			
Personal Service	(\$90,446)	(\$109,620)	(\$110,717)
Fringe Benefits	(\$44,842)	(\$54,133)	(\$54,459)
Equipment and Expense	<u>(\$12,853)</u>	<u>(\$9,455)</u>	<u>(\$9,691)</u>
<u>Total Cost - OPC</u>	<u>(\$148,141)</u>	<u>(\$173,208)</u>	<u>(\$174,867)</u>
FTE Change - OPC	2 FTE	2 FTE	2 FTE
ESTIMATED NET EFFECT TO THE PUBLIC SERVICE COMMISSION FUND	<u>(\$148,141)</u>	<u>(\$173,208)</u>	<u>(\$174,867)</u>
 Estimated Net FTE Change to the Public Service Commission Fund	 2 FTE	 2 FTE	 2 FTE

<u>FISCAL IMPACT - Local Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
LOCAL POLITICAL SUBDIVISIONS			
<u>Cost</u> - Possible increase in utility cost	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>
ESTIMATED NET EFFECT ON THE LOCAL POLITICAL SUBDIVISIONS	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>

FISCAL IMPACT - Small Business

Small businesses may see an increase in utility costs.

FISCAL DESCRIPTION

This proposal modifies provisions relating to ratemaking for public utilities.

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
Division of Energy
Public Service Commission
Office of Public Counsel
Attorney General's Office
Department of Natural Resources
Office of Administration

Ross Strobe



Acting Director
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