

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1122-08
Bill No.: Truly Agreed To And Finally Passed SCS for SB 387
Subject: Public Service Commission; Utilities
Type: Original
Date: May 21, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	(\$383,670)	(\$157,726)	(\$161,574)
Public Service Commission Fund*	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> State Funds	(\$383,670)	(\$157,726)	(\$161,574)

* Assumes costs of \$250,000 in FY 02, FY 03 and 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 7 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 **Department of Natural Resources** 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.

The 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 of the Department of Economic Development - Office of Public Counsel and Public Service Commission (PSC) assume that the definition is meant to reduce the number of divisions of one company which would be affected by the proposal.

Officials from the **Department of Economic Development - Office of Public Counsel (OPC)** assumed they would require an engineer or an economist, one 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 run in the neighborhood of \$4,000. (Price quoted from Public Service Commission - existing annual license cost). It is projected that the FY 2004 cost for the license fee would be due July/August, 2003. IN ADDITION, 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 would be to hire the requested personnel with the passage of an emergency appropriation to fund same.

Officials state the Public Counsel would need to hire "fuel consultants" for the rate case mandated by this bill, for one 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. This is a one time expense associated

ASSUMPTION (continued)

with the company filing their mandatory rate case. With the assumption that the language in the bill 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 Office of the Public Counsel would also be deemed to be implemented as an emergency measure.

It is assumed that one electric corporation (Empire District Electric Company) will file one fuel adjustment per year. OPC officials note that other companies which are both electric and gas corporations could restructure their electric and gas functions as separate subsidiaries, which would allow additional electric corporations to become eligible. If this occurred, the Office of Public Counsel would request additional resources.

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 new technical personnel. A cubicle already exists for the clerical position. 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.

Public Counsel would need one additional Public Utility Accountant I to collect and correlate the additional data associated with fuel and purchase power. Also, this 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.

Public Counsel already experiences a low support staff/professional ratio. With the addition of two full-time technical positions our 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.

Officials from the **Department of Economic Development - Public Service Commission** (PSC) assume since this bill has a termination date of December 31, 2004, consultants will be used in lieu of permanent staff. The consultants would be needed starting with the effective date of the bill and for one year following the termination of this bill to finish any refunds necessary.

ASSUMPTION (continued)

Consultant expense is estimated to be \$250,000 per year.

The following work would be performed by the Consultants: 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 that should be collected by the utilities. The consultants would also prepare recommendations for 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.

Additionally, the consultants will develop criteria for procedure for companies to recover the cost of natural gas associated with the production of electricity and the impact of the cost of natural gas on the purchased price of electric energy, develop reporting requirement, perform investigation of natural gas purchases and purchased energy, and model fuel and purchased energy of each utility and provide this information to other staff to determine the accuracy of the company's request to recover these costs.

The consultants will also develop the initial rate case to develop the base of purchased natural gas for generation and purchased energy and assist in the development of rules and regulations necessary to carry out the requirements of the Commission in this bill.

Additionally, the consultants 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, develop a recommended audit program for the review of the reasonableness and prudence of actual gas costs to be recovered under this legislation, evaluate and suggest, when appropriate, any alternative regulatory approaches or experiments that will ensure that consumers will pay no more than necessary, and 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.

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.

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
GENERAL REVENUE FUND			
<u>Cost</u> - Department of Economic Development (OPC)			
Personal Service (3 FTE)	(\$111,807)	(\$114,602)	(\$117,467)
Fringe Benefits	(\$37,265)	(\$38,197)	(\$39,152)
Expense and Equipment	(\$234,598)	(\$4,927)	(\$4,955)
Estimated Net Effect on GENERAL REVENUE FUND	<u>(\$383,670)</u>	<u>(\$157,726)</u>	<u>(\$161,574)</u>

PUBLIC SERVICE COMMISSION FUND

<u>Cost</u> - Department of Economic Development (PSC)			
Consultant Expenses	(\$250,000)	(\$250,000)	(\$250,000)
<u>Income</u> - Department of Economic Development (PSC)			
Assessment to utilities	<u>\$250,000</u>	<u>\$250,000</u>	<u>\$250,000</u>
Estimated Net Effect on PUBLIC SERVICE COMMISSION FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2002	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 the Missouri Public Service Commission to allow electrical corporations which are not also gas corporations and serve fewer than 175,000 retail customers in Missouri and which own at least 60% of a plant with a capacity of at least 300 megawatts which

DESCRIPTION (continued)

was under construction and at least 30% complete on January 1, 2001, to recover reasonably and prudently incurred costs of the purchase of natural gas used in the production of electricity in such plants and costs of electricity purchased as an alternative to using such plants and impacted by the cost of natural gas. The recovery of purchased electricity costs shall be fully recoverable for one year after the section becomes effective and limited to 50% 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 shall be according to rate schedules approved by the Commission.

The rate schedules will be initially established pursuant to a general rate proceeding except if the Commission determines it is not in the interests of ratepayers to establish such a recovery mechanism, except that a utility which files under this proposal within 90 days of the effective day 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 proceeding 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.

The electrical corporation shall 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. Updated schedules shall be reviewed separately from the general rate proceeding process and decided upon within 45 days, unless the Commission determines an extra period of up to 30 days is required. If, in reviewing the update filing, the Commission finds a substantial possibility that the utility is over earning, the Commission shall initiate a general rate order proceeding. Such rate proceeding shall be completed in 11 months and any portion of the rate decrease not in excess of the amount of the interim natural gas cost recovery rate shall be retroactive with interest calculated from the date that interim cost recovery was allowed under this proposal.

The Commission shall establish a process to "true-up" the recovery to refund any over-collection, with interest. A utility shall not be allowed to make up for under-collection in previous adjustment periods. Once determined, refunds shall be processed in the next billing cycle. Refund cases shall be considered on an expedited basis. The Public Counsel and any customer may intervene.

The section allowing cost recovery for electrical corporations terminates on Dec. 31, 2004.

The act allows any non-profit electrical corporation to recover and pass through its costs associated with the purchase and transportation of electrical energy under an automatic adjustment provision.

DESCRIPTION (continued)

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 Natural Resources
Office of State Courts Administrator
Department of Economic Development - Office of Public Counsel
Department of Economic Development - Public Service Commission



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Director
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