

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4977-01
Bill No.: SB 1273
Subject: Utilities: Water Corporations
Type: Original
Date: April 8, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General Revenue	(\$50,000)	(\$50,000)	(\$50,000)
Public Service Commission*	\$0	\$0	\$0
Total Estimated Net Effect on <u>All</u> State Funds	(\$50,000)	(\$50,000)	(\$50,000)

*Assumes costs to the Fund of \$475,867, \$533,534, and \$549,539 and offsetting increases in assessments against regulated utilities in the next three fiscal years.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 6 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Economic Development- Public Service Commission** stated that under the provisions of this proposal all Commission regulated water corporations (currently approximately 75) would be allowed to file a petition with the Commission to establish a line-item billing surcharge for the recovery of certain underground facility safety costs. Additionally, the provisions would allow the largest Commission regulated water corporation to file a third petition with the Commission to establish a line-item billing surcharge for the recovery of certain infrastructure system replacement costs. Under the provisions of this proposal any Commission regulated water corporation that establishes one or more of the allowed line-item billing surcharges would also be allowed to file up to four petitions with the Commission for adjustments to the surcharge during the twelve-month period following the establishment of the surcharge. In addition to these surcharge adjustments, this proposal requires an annual reconciliation of the surcharge revenues collected and the underlying allowable costs associated with the surcharge, with an appropriate adjustment to the surcharge reflecting that reconciliation then being required. Another provision of the proposal requires an adjustment to an established surcharge subsequent to a general rate case. Also, each initial petition filing seeking to establish any of the allowed line-item billing surcharges would involve the development and review of revised utility tariff provisions, and each subsequent adjustment to an established surcharge would also involve tariff revisions.

Under this proposal the time allowed for Commission Staff review and Commission action is limited to 30 days from the date a petition is filed and 60 days from the date the petition is filed, respectively. These time limits would apparently not only apply to the initial petition seeking to establish an allowed surcharge, and to any of the petition filings for surcharge adjustments filed during the twelve-month period following the establishment of a surcharge, but also to any petition filing for an adjustment to the surcharge necessitated by the annual reconciliation of revenues and allowable costs.

Officials stated that the largest of the Commission's regulated water corporations is undertaking actions regarding the security of its systems, which are purportedly adding incremental costs to its overall cost of service. Officials assume that regulated water corporations are undertaking additional security measures. As a result, the largest Commission regulated water corporation would almost certainly seek the establishment of a line-item billing surcharge under the provisions of this proposal, and others may do the same.

PSC officials assume that under the provisions of Chapter 319, RSMo, all Commission regulated water corporations would eventually be required to participate in the State's underground facility safety and damage prevention notification center. As a result, they would incur cost that would

ASSUMPTION (continued)

allow them to seek the establishment of a line-item billing surcharge under the provisions of Section 393.1012.2 and others may also do the same.

PSC officials assume that this proposal would increase the workload of the PSC. Officials assume that additional 6.50 FTE would be required along with an increase in equipment and expense. Officials estimate they would need the following additional staff: 1) Rate and Tariff Examiner III; 1) Utility Engineering Specialist II; 1) Utility Regulatory Auditor V; 1) Utility Regulatory Auditor IV; 1) Utility Regulatory Auditor III; 1) Regulatory Law Judge; and .50) Legal Counsel.

Officials estimate costs for 10 months of personal service (6.50 FTE) in FY 2003 at \$271,036 and fringe benefits of \$97,600. Costs of personal service in FY 2004 is \$326,830 fringe benefit costs of \$117,691. Personal service costs in FY 2005 were estimated at \$336,633 with fringe benefit costs of \$121,222. Equipment and expense in FY 2004 is estimated to be \$107,231, and \$89,013 in FY 2005, and \$91,684 in FY 2005.

Oversight assumes the Public Service Commission would adjust assessments against regulated utilities to offset increased costs due to this proposal; **however, the amount of assessment against regulated utilities is limited to one-fourth of 1 percent (.0025) of gross intrastate operating revenues of all utilities under Commission jurisdiction. If assessments are insufficient to cover Commission costs then the Commission would have to seek an increase in the amount which may be assessed or seek funding for the Commission from different sources.**

Officials of the **Department of Economic Development- Office of Public Counsel** assume this proposal contains three sections, each of which would allow a water corporation to request large increases in water rates from the Public Service Commission on a very short expedited time frame. Officials assume they would have the duty to conduct detailed analysis in any case based upon such request. Officials assume the requirements of this proposal are to review the prudence of costs allegedly incurred to provide security services, and installation of underground water storage facilities. The proposal also provides for rate increases associated with water main replacement.

Officials assume that in order to adequately represent consumers in cases involving these sections, Public Counsel would need to retain specialized consultants under multi-year contracts to be available to review the filings allowed under this proposal. Officials estimate that there would be one case per year, and the costs annually would be \$25,000.

Officials stated that this proposal does not provide for any review of the reasonableness and prudence of costs associated with water mains for which an ISRC is allowed until such time as

ASSUMPTION (continued)

the company files a general rate increase or the IRSC exceeds 20% of base revenue (revenue other than IRSC and other revenue resulting from charges allowed per SB 1723).

Public Counsel states that at such time they would anticipate the need to review the prudence of the costs incurred relating to the water main replacement and the associated planning process would occur in the general rate proceeding. Officials stated that in the past, Public Counsel has filed extensive engineering testimony relating to St. Louis County's water main replacement program and participated in extensive negotiations and planning of how the company should address the problem. The issue of developing a systematic plan to address the decision process of when to replace water mains was initially raised by Public Counsel in the mid 1990s. Public Counsel no longer has an engineer on staff and would, therefore, be required to hire a consultant in this field of expertise. Public Counsel would anticipate rate cases every other year based on past practices and current planned replacement rates based upon subsection 393.1012.4. Public Counsel estimates these annual costs at \$25,000 in any one year.

Public Counsel assumes they would likely be required to investigate and audit the water corporations that impose such charges to ensure that corresponding decreases in other costs are recognized in water rates. This would shift the burden to consumers to prove in earnings complaint cases that rates need to be reduced to reasonable levels. Public Counsel officials stated that they would expect to be able to address most issues with current accounting expertise, however, the nature and frequency of these issues could strain current resources and require further fiscal impacts. Officials estimate costs of Consultants in FY 2003, 2004, and 2005 at \$50,000 in each year.

<u>FISCAL IMPACT - State Government</u>	FY 2003	FY 2004	FY 2005
	(10 Mo.)		

**PUBLIC SERVICE COMMISSION
 FUND**

<u>Income</u> - Increased Assessments on Regulated Utilities	\$475,867	\$533,534	\$549,539
<u>Cost</u> - Public Service Commission			
Personal Service (6.50 FTE)	(\$271,036)	(\$326,830)	(\$336,633)
Fringe Benefits	(\$97,600)	(\$117,691)	(\$121,222)
Expenses	(\$72,016)	(\$89,013)	(\$91,684)
Equipment	<u>(\$35,215)</u>	<u>\$0</u>	<u>\$0</u>
Total Cost to Public Service Commission	(\$475,867)	(\$533,534)	(\$549,539)

<u>FISCAL IMPACT - State Government</u>	FY 2003 (10 Mo.)	FY 2004	FY 2005
ESTIMATED NET EFFECT ON PUBLIC SERVICE COMMISSION FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
GENERAL REVENUE FUND			
<u>Cost</u> - Office of Public Counsel Consulting Services	(\$50,000)	(\$50,000)	(\$50,000)
ESTIMATED NET EFFECT TO GENERAL REVENUE FUND	<u>(\$50,000)</u>	<u>(\$50,000)</u>	<u>(\$50,000)</u>
 <u>FISCAL IMPACT - Local Government</u>	 FY 2003 (10 Mo.)	 FY 2004	 FY 2005
	\$0	\$0	\$0

FISCAL IMPACT - Small Business

Small business that would be located in an area served by a water corporation that would make security changes etc. could expect to pay additional utility costs that would help defray the costs of utility safety improvements.


DESCRIPTION

This act allows water corporations to file a petition with the Public Service Commission to establish additional charges or change rate schedule to allow for the recovery of costs associated with securing the water facilities or underground facilities. The Commission would conduct an examination of the proposed rate change and hold a hearing on the proposed changes.

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 and Office of Public Counsel

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Acting Director
April 8, 2002