

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 6103-04  
Bill No.: HCS for HB 2265  
Subject: Utilities  
Type: Original  
Date: March 6, 2018

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Bill Summary: This proposal modifies provisions for public utilities.

**FISCAL SUMMARY**

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

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2019	FY 2020	FY 2021
Public Service Commission Fund	(\$78,562)	(\$92,047)	(\$92,930)
<b>Total Estimated Net Effect on Other State Funds</b>	<b>(\$78,562)</b>	<b>(\$92,047)</b>	<b>(\$92,930)</b>

Numbers within parentheses: ( ) indicate costs or losses.

This fiscal note contains 8 pages.

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

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
<b>FUND AFFECTED</b>	<b>FY 2019</b>	<b>FY 2020</b>	<b>FY 2021</b>
Public Service Commission Fund	1 FTE	1 FTE	1 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>1 FTE</b>	<b>1 FTE</b>	<b>1 FTE</b>

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

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

## FISCAL ANALYSIS

### ASSUMPTION

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

Section 393.1100 permits customers to refuse the mechanism by which companys measure consumption. This may incur economic waste by requiring manual reading or auditing of self-reporting.

Section 393.1400.2(1) and (2) language is internal inconsistent and will create litigation where it states that no adjustment will be permissible under the statute based upon consideration of other factors, while the second sub paragraph indicates that disallowances would be permitted upon a finding of imprudence. This may create new litigation. (3) the definition of qualifying electric plant does not exclude costs associated with natural gas, wind or solar generation plants.

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 393.1670 authorizes solar rebates.

Given the experience of OPC on time spent litigating existing revenue adjustment mechanisms, the potential for appellate work, and the amount of Investor-Owned Utilities who would be eligible to seek such a mechanism, such a bill would likely require one additional attorney at \$58,423 annually.

Officials from the **Department of Economic Development - Division of Energy (DE)** participate in 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 Public Service Commission (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.

ASSUMPTION (continued)

386.266: The 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.

393.1670: 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 **Office of Administration - Facilities Management Design and Construction (OA-FMDC)** assumes the following:

Section 386.266.3 of the bill allows any gas or electrical corporation to make an application to the Public Service Commission to approve rate schedules authorizing periodic rate adjustments outside of general rate proceedings to adjust rates to account for the impact on utility revenues of changes in usage due to variations in either weather, conservation, or both.

ASSUMPTION (continued)

FMDC is unable to predict the extent of electrical rate adjustments allowed by this subsection.

Section 393.137 of the bill provides the PSC, in specified circumstances, the authority to prospectively adjust the rates of certain electrical corporations so that the income tax component of the revenue requirement used to set such corporations' rates is based on the provisions of the federal 2017 Tax Cut and Jobs Act without considering any other factor as otherwise required by section 393.270. FMDC is unable to predict the extent of electrical rate adjustments allowed by this section.

Section 393.1400 of the bill requires electrical corporations that elect to be part of a voluntary program to defer all depreciation expenses and returns associated with either half or all (depending on recorded plan-in-service date) qualifying electric plants to a regulatory asset, which shall then be included in those electrical corporations' rate base without any other offsets or adjustments except as provided in the bill. FMDC is unable to predict the effect of this section on electrical rates except as provided for in section 393.1655.

Section 393.1640 of the bill allows for percentage discounts to be applied to base rates for new or existing customers meeting certain criteria. The section allows for the reduced revenues resulting from the specified discounts to be recovered by an increase via the application of a uniform percentage adjustment to all customer classes. FMDC is unable to predict the extent of electrical rate adjustments allowed by this section.

Section 393.1655 of the bill limits rate increases for electrical corporations that elected to exercise any option under section 393.1400 and that have more than 200,000 customers in 2018. An electrical corporation's base rates shall remain static for three years, except that rates may change due to a reduction in revenues resulting from a force majeure event. This limitation shall not affect the electrical corporation's ability to adjust its non-base rates that arise from PSC-approved rate adjustment mechanisms during such 3-year period. Subsection 3 would allow Electrical corporations that have a general rate proceeding pending before the PSC as of a specified date to recover an amount not to exceed three percent as specified. Subsection 4 would allow electrical corporations that do not have a general rate proceeding pending before the PSC as of the specified date to recover an amount not to exceed two and eighty-five hundredths percent as specified. Subsection 6 would allow reduced revenues arising from limiting the large power service class rate increase to two percent to be recovered by an increase via the application of a uniform percentage adjustment to all other customer classes. FMDC is unable to predict the effect of this section on electrical rates except as provided for in subsections 3 and 4.

ASSUMPTION (continued)

Section 393.1670 of the bill requires an electrical corporation to make solar rebates available in specified amounts, subject to limitations. An electrical corporation providing rebates under this section may elect to recover the cost of all solar rebate payments it has made as provided by the section. FMDC is unable to predict the extent of electrical rate adjustments allowed by this section except as provided by subsection 2 of section 393.1030.

FMDC assumes that the above referenced provisions will increase gas and electrical utility rates (where applicable), and therefore, FMDC's expenditures for those utilities. Without additional information, FMDC is unable to accurately calculate the amount of such increases. In the last three fiscal years, FMDC has averaged \$3,438,727 per year in gas expenditures and \$17,990,497 per year in electricity expenditures (both amounts exclude MODOT, Conservation and Higher Education). For each one percent increase in gas rates the additional cost to FMDC would be approximately \$34,387 annually, and for each one percent increase in electrical rates the additional cost to FMDC would be approximately \$179,905 annually. A three percent increase in electrical rates would cost FMDC approximately \$539,715 annually.

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.

Officials from the **Department of Economic Development - Public Service Commission** and the **Department of Natural Resources** each assume the proposal will have no fiscal impact on their organizations.

<u>FISCAL IMPACT - State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
<b>GENERAL REVENUE FUND</b>			
<u>Cost - OA</u>	\$0 or	\$0 or	\$0 or
Possible increase in utility cost	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
<b>ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND</b>	<b><u>\$0 or (Unknown)</u></b>	<b><u>\$0 or (Unknown)</u></b>	<b><u>\$0 or (Unknown)</u></b>

<u>FISCAL IMPACT - State Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
<b>PUBLIC SERVICE COMMISSION FUND</b>			
<u>Cost - OPC</u>			
Personal Service	(\$48,686)	(\$59,007)	(\$59,597)
Fringe Benefits	(\$23,450)	(\$28,313)	(\$28,488)
Equipment and Expense	<u>(\$6,426)</u>	<u>(\$4,727)</u>	<u>(\$4,845)</u>
<u>Total Cost - OPC</u>	<u>(\$78,562)</u>	<u>(\$92,047)</u>	<u>(\$92,930)</u>
FTE Change - OPC	1 FTE	1 FTE	1 FTE
<b>ESTIMATED NET EFFECT ON THE PUBLIC SERVICE COMMISSION FUND</b>	<b><u>(\$78,562)</u></b>	<b><u>(\$92,047)</u></b>	<b><u>(\$92,930)</u></b>
Estimated net effect on the Public Service Commission Fund	1 FTE	1 FTE	1 FTE
<u>FISCAL IMPACT - Local Government</u>	FY 2019 (10 Mo.)	FY 2020	FY 2021
<b>LOCAL POLITICAL SUBDIVISIONS</b>			
<u>Cost - Possible increase in utility cost</u>	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>	\$0 or <u>(Unknown)</u>
<b>ESTIMATED NET EFFECT ON THE LOCAL POLITICAL SUBDIVISIONS</b>	<b><u>\$0 or (Unknown)</u></b>	<b><u>\$0 or (Unknown)</u></b>	<b><u>\$0 or (Unknown)</u></b>

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

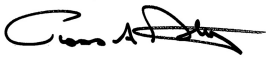
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require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Economic Development  
Attorney General's Office  
Department of Natural Resources  
Office of Administration

Ross Strope

A handwritten signature in black ink, appearing to read "Ross Strope".

Acting Director  
March 6, 2018