COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0786-03
Bill No.: SB 366
Subject: Energy; Public Service Commission; Utilities
Type: Original
Date: February 10, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	($226,495)	($246,498)	($253,129)
Total Estimated Net Effect on General Revenue Fund	**($226,495)**	**($246,498)**	**($253,129)**

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Public Service Commission Fund*	$0	$0	$0
Total Estimated Net Effect on Other State Funds	**$0**	**$0**	**$0**

*Assumes costs to the Fund of $502,718, $543,080, and $557,000 and offsetting increases in assessments against regulated utilities in the next three fiscal years.

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	**$0**	**$0**	**$0**

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Economic Development, Office of Public Counsel (OPC)** assume this proposed legislation would significantly increase the work load associated with the review of electric company and natural gas company investments and expenses for the five major electric companies (one with multiple divisions) and the four major natural gas utilities (three having multiple operating divisions with separate tariffs). This bill would provide for, on a stand-alone basis, reviews and investigations of various investments in "plant in service" and related expenses for "facilities" whose cost exceeds specified cost floors provided for in the bill. Additionally, all purchase power contracts providing for purchases in excess of $5 million shall also be reviewed. The Public Service Commission (PSC) would be required to issue an order stating the rate making treatment to be afforded these investments and expenses within 180 days of application by the utility. The cost of investments and purchased power expenses are normally performed during rate cases whose frequency ranges from once a year to up to once every seven to ten years depending on the utility involved.

This bill eliminates the economies of scale and scope associated with rate case audits by isolating certain tasks from the rate process and effectively adding reviews currently not performed. For example, purchase power contracts entered into and completed in between rate cases are not now routinely reviewed. OPC does not have sufficient resources to take on these additional tasks.

ASSUMPTION (continued)

This bill increases the workload for OPC. This bill also creates the potential for unforeseen complex issues to develop in subsequent rate cases and rate complaint cases due to the interplay between the predetermination of rate making principles and the requirement that PSC set just and reasonable rates. A review of each major investment along with specified purchase power contracts undertaken by electric and gas utilities places the Office of Public Counsel and ultimately PSC in a situation where it must constantly review management decisions.

OPC would require three additional FTEs (engineer, economist, and support staff person) as a result of the annual duties created by this legislation. In addition, OPC would need to retain outside consultants to provide specialized expertise in the areas of utility plant planning and purchase power contract analysis, including native load generation alternatives. OPC anticipates the need to perform two general investigations per year (one for an electric and one for gas). OPC would require consulting contracts allowing for service as needed, in order to respond to the limited time frame provided under the bill.

Current work spaces would have to be reorganized to provide space and accommodations for the 3 new employees within OPC. Cubicles and furnishings would need to be furnished for the new technical personnel. A cubicle already exists for the clerical position. OPC assumes it would be necessary to purchase three computers, an additional printer and copy machine.

An engineer and an economist would be required to analyze the various planning and implementation procedures associated with the construction of plant in service. The engineer would be required to look at the technical questions related to plant investments and alternatives and power flows over the transmission grid as it relates to purchase power contracts. An economist would investigate the economic consequences and outcomes of the various alternatives proposed to ensure that the most efficient alternative is being proposed. In addition, the bill provides for expedited PSC review of any matter associated with questions of prudence of the plant in service. OPC anticipates this bill would greatly increase the flow and analysis of information regarding the utilities plant investment practices and power purchasing procedures.

Outside consultants would be able to provide specialized knowledge in the areas of purchase power contracts and related generation alternatives. OPC anticipates using the consultants for an average of one electric and one gas case each fiscal year. It would be most efficient to request bids for these consulting services. These consultants would be acquired by bid for a three year renewal contract due to the time considerations required under this bill.

ASSUMPTION (continued)

OPC already experiences a low support staff/professional ratio. With the addition of two full-time professional positions, our current two support staff positions would be extremely over-burdened with the additional duties the bill would create. 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 staff personnel.

Oversight has, for fiscal note purposes only, changed the starting salary for the three additional OPC staff requested 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.

Officials of the **Department of Economic Development, Public Service Commission (PSC)** assume the proposed bill would represent a significant increase in effort regarding regulation of natural gas and electric corporations (companies) in the state of Missouri. Companies pursuing construction of any facilities (as defined in the bill) or participation in a contract would be able to petition the PSC for a determination of the rate making principles and treatment that would apply to all future recoveries in retail rates of the cost to be incurred by the company to acquire its stake in the planned facility during the expected useful life of the facility or the recovery in retail rates of the planned contract. Given the bill's defined investment levels and served customer numbers, this could represent a significant number of ongoing cases, possibly with several cases going on in parallel proceedings. These PSC determinations would be applicable to these facilities and/or contracts in all subsequent proceedings in which these facilities and/or contracts are considered.

Determinations would need to be provided by the PSC within 180 days or the conditions filed for by the company would become effective. Companies would have 12 months from the effective date of the PSC's determination to decide if they wish to proceed with the facility construction or contract. If the company chooses not to invest in the proposed facility or contract, PSC would not be able to consider any precedential value in any subsequent proceedings and would not be able to consider any adverse presumptions in any future proceedings as a result of the company deciding not to construct the facility or enter into the contract.

Natural gas and electric utility companies would petition PSC for determination of future rate making treatment for qualifying facilities and contracts. This could result in a significant number of additional filings and commission cases.

ASSUMPTION (continued)

An estimate of the additional PSC staff needed to address this increase in workload are provided below:

2 Regulatory Engineer II
2 Utility Regulatory Auditor IV
1 Regulatory Law Judge
2 Paralegal
1 Senior General Counsel

This bill would also result in additional work for the Financial Analysis Department but it is expected at this time that this work could be accomplished with the staff currently available in that department.

PSC assumes any additional costs to PSC associated with this legislation would be assessed to regulated utility companies and affect Total State Revenue.

Oversight has, for fiscal note purposes only, changed the starting salary for the eight requested PSC staff positions 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.

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-forth of 1 percent (.0025) of gross intrastate operating revenues of all utilities under PSC jurisdiction. If assessments are insufficient to cover PSC costs, then the PSC would have to seek an increase in the amount which may be assessed or seek funding for the PSC from different sources.

FISCAL IMPACT - State Government	FY 2004 (10 Mo.)	FY 2005	FY 2006
GENERAL REVENUE FUND			
Cost - Office of Public Counsel			
Personal Service (3 FTE)	($88,478)	($108,828)	($111,549)
Fringe Benefits	($35,807)	($44,043)	($45,144)
Expense and Equipment	($102,210)	($93,627)	($96,436)
Total Cost - OPC	($226,495)	($246,498)	($253,129)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**($226,495)**	**($246,498)**	**($253,129)**
PUBLIC SERVICE COMMISSION FUND			
Income - Increased Assessments on Regulated Utilities	$502,718	$543,080	$557,000
Cost - Public Service Commission			
Personal Service (8 FTE)	($274,536)	($337,679)	($346,121)
Fringe Benefits	($111,105)	($136,659)	($140,075)
Expense & Equipment	($117,077)	($68,742)	($70,804)
Total Cost - PSC	($502,718)	($543,080)	($557,000)
ESTIMATED NET EFFECT ON PUBLIC SERVICE COMMISSION FUND	**$0**	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2004 (10 Mo.)	FY 2005	FY 2006
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

Small businesses served by these natural gas and electric corporations could see their rates for energy increase.

DESCRIPTION

This proposal allows electrical and gas corporations to seek preapproval from the Public Service Commission for certain projects in order to assure the financial community that a reasonable return will be realized. This proposal would allow gas and electrical corporations to file a petition with the PSC for a determination of rate making principles and treatment which would apply to the recovery of costs for the construction of a new facility. In order to be eligible for such a determination, the facility must be a gas or electric plant which would have a total investment or least cost of at least $5 million for companies serving between 100,000 and one million customers and $25 million for companies serving more than one million customers.

PSC must then issue an order setting forth the rate making principles and treatment in all rate cases after the facility is placed in service. If PSC fails to issue a determination within 180 days of the petition, the rate making principles and treatment proposed by the company will apply. Once the order is issued by PSC, the company has 12 months to notify PSC whether it will proceed with the project.

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
Office of Public Counsel
Public Service Commission

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KS:LR:OD (12/02)

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