

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4827-03
Bill No.: HB 2310
Subject: Utilities; Fees
Type: Original
Date: March 29, 2010

Bill Summary: This proposal modifies provisions relating to infrastructure replacement surcharges for water corporations.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
Total Estimated Net Effect on General Revenue Fund	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

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

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Total Estimated Net Effect on FTE	0	0	0

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
Local Government	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development - Public Service Commission, State Tax Commission, Department of Revenue, Office of Administration - Administrative Hearing Commission**, and the **Department of Transportation** state this proposed legislation will have no fiscal impact on their respective agencies.

Officials from the **Department of Natural Resources** do not anticipate a direct fiscal impact from this proposal.

According to officials from the **Office of Secretary of State (SOS)**, many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the proposal. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$2,500.

Oversight assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process. Any decisions to raise fees to defray costs would likely be made in subsequent fiscal years.

Officials from the **Department of Economic Development - Office of Public Counsel (OPC)** state this proposal would expand existing legislation so that at least five more service areas for major population centers could take advantage of the opportunity to adjust rates. Currently only one service area has this option. The proposed legislation also expands the definition of "Water utility plant projects" such that items are included that will raise the question of prudence on investment question. Prudence audits require significantly more analysis than investment verification analysis and require both financial and engineering analysis. Expansion of eligibility for the single issue rate mechanism provided under this legislation also increases the number of rate cases, thus requiring additional resources to analyze all utility costs and process the rate case before the Public Service Commission. Single issue rate mechanisms that exclude consideration of other utility operating revenues, costs, and net investments do not provide ratepayers assurance that the ratepayers are paying just and reasonable rates in total. The required rate case will be the only opportunity to ensure that total rates are just and reasonable.

This proposal will create significant additional responsibilities for OPC staff, requiring the addition of 3 FTE's with specific professional expertise to address the complex legal, engineering

ASSUMPTION (continued)

and financial issues that will be raised by this proposed legislation. This legislation significantly expands the service territories that could face rate increases and also expands existing statutory authority. This expansion results in new regulatory issues currently not addressed. The legislation effectively will require additional mandatory rate cases which are necessary in order to consider all relevant factors of a utility consistent with case law on setting rates.

Oversight assumes it is unknown how many cases would be subject to review. For fiscal note purposes only, **Oversight** will show no additional personnel costs. Should a sufficient number of cases warrant additional personnel, those personnel may be requested through the appropriations process.

Officials from the **Little Blue Valley Sewer District** state this proposal will have no affect on their district.

This proposal was sent to several other Water and Sewer Districts, none of which responded to a request for fiscal note.

Oversight assumes this proposal could result in unknown rate increases for state government, local government, and small businesses.

<u>FISCAL IMPACT - State Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
<u>Cost</u> - State Agencies - Increased water service rates	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>
ESTIMATED NET EFFECT ON STATE GOVERNMENT	<u><u>\$0 to</u></u> <u><u>(Unknown)</u></u>	<u><u>\$0 to</u></u> <u><u>(Unknown)</u></u>	<u><u>\$0 to</u></u> <u><u>(Unknown)</u></u>

<u>FISCAL IMPACT - Local Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
<u>Cost - Local Political Subdivisions -</u> Increased water service rates	\$0 to <u>(Unknown)</u>	\$0 to <u>Unknown)</u>	\$0 to <u>Unknown)</u>
ESTIMATED NET EFFECT ON LOCAL GOVERNMENT	<u>\$0 to</u> <u>(Unknown)</u>	<u>\$0 to</u> <u>(Unknown)</u>	<u>\$0 to</u> <u>(Unknown)</u>

FISCAL IMPACT - Small Business

This proposed legislation could result in an increase in utility costs to operate small businesses.

FISCAL DESCRIPTION

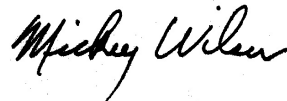
This proposed legislation changes the laws regarding infrastructure replacement surcharges for water corporations. In its main provisions, the proposal:

- (1) Revises the definition for "eligible infrastructure system replacements" to include energy efficiency projects that are in service, used, and useful; do not increase revenues by connecting the infrastructure replacements to new customers; and were not included in the water corporation's rate base in its most recent rate case and defines "energy efficiency" as measures that reduce the amount of energy required to achieve a given end result;
- (2) Adds service lines and meters that have worn out, are in a deteriorated condition, or replaced as part of an order issued by the Missouri Public Service Commission, as well as energy efficiency projects, to the list of projects that are allowable water utility plant projects; and
- (3) Allows, beginning August 28, 2011, all water corporations to file a petition and proposed rate schedules with the commission to establish or change its infrastructure system replacement surcharge rate schedules that will allow for the adjustment of the corporation's rates and charges to provide for the recovery of costs for eligible infrastructure system replacements. Currently, only water corporations in St. Louis County are allowed to file a petition and proposed rate schedules.

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
 Office of Public Counsel
Department of Natural Resources
State Tax Commission
Department of Revenue
Department of Transportation
Office of Administration
 Administrative Hearing Commission
Office of Secretary of State
 Administrative Rules Division
Water and Sewer Districts
 Little Blue Valley Sewer District



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Director
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