

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1089-01
Bill No.: HB 633
Subject: Utilities; Water Resources and Water Districts; Waste Solid
Type: Original
Date: February 18, 2019

Bill Summary: This proposal establishes the Missouri Water and Wastewater Infrastructure Resilience Act.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
General Revenue Fund	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)
Total Estimated Net Effect on General Revenue	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
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 2020	FY 2021	FY 2022
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Total Estimated Net Effect on FTE	0	0	0

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

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2020	FY 2021	FY 2022
Local Government	\$0 to (Unknown)	\$0 to (Unknown)	\$0 to (Unknown)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Economic Development - Office of Public Counsel (OPC)** state that this proposal would allow larger water companies to file two surcharge rate increases per year, and each request could include hundreds and possibly thousands of projects for review. The analysis required by the Office of the Public Counsel's accountants, engineers and attorneys could cost approximately \$9,000 for the initial review, and an additional \$5,000 if contested and litigated. HB 633 permits each qualifying company to file two applications per year, suggesting HB 633 could require the Office of the Public Counsel to incur approximately \$18,000 to \$28,000 annually if only two applications are filed, or more if more companies file applications. Public Counsel anticipates it would be able to process these cases with the current appropriation and employees.

Officials from the **Department of Economic Development - Public Service Commission (PSC)** assume the proposed bill would allow certain water or sewer companies to file a petition and proposed rate schedule with the Public Service Commission (PSC) to create or change an infrastructure resilience rate adjustment (IRRA) charge between general rate cases, but no more than twice in a twelve month period.

The IRRA is very similar to the Infrastructure System Replacement Surcharge (ISRS), a common type of case routinely filed with the PSC. Analysis of recent ISRS cases at the PSC show a cost range per case of \$9,000 - \$14,000 for the Commission.

If passed, the bill could potentially result in an estimated 0-2 cases each year. The total number of cases filed with the PSC varies from year to year. Since HB 633 may or may not add an additional case or two each year; however, the PSC expects to be able process the cases with existing staff and appropriation authority.

Oversight notes that the OPC and the PSC has stated that their agencies will be able to process the potential new case load with existing staff and appropriation authority. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact on the fiscal note.

Officials from the **Department of Economic Development - Division of Energy** and the **Metropolitan St. Louis Sewer District** each assume the proposal will have no fiscal impact on their respective organizations.

ASSUMPTION (continued)

Oversight notes that the above mentioned agencies have stated the proposal would not have a direct fiscal impact on their organization. Oversight does not have any information to the contrary. Therefore, Oversight will reflect a zero impact on the fiscal note for these agencies.

Oversight only reflects the responses that we have received from state agencies and political subdivisions; however, other utilities were requested to respond to this proposed legislation but did not. For a general listing of political subdivisions included in our database, please refer to www.legislativeoversight.mo.gov.

Oversight assumes this proposal would allow some water companies to file up to two surcharge rate increases per year. Oversight assumes this proposal could increase utility cost for the Office of Administration and for local governments. Since it is unknown what the surcharge cost is (if any), Oversight will reflect a range from \$0 (no surcharge rates are filed) to and unknown cost to the state and local political subdivisions for increased cost for water and sewer.

<u>FISCAL IMPACT - State Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
---	---------------------	---------	---------

GENERAL REVENUE FUND

<u>Cost - Office of Administration</u>	\$0 to	\$0 to	\$0 to
Potential increase in water and sewer utility costs	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

ESTIMATED NET EFFECT TO THE GENERAL REVENUE FUND	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>
---	------------------------------------	------------------------------------	------------------------------------

<u>FISCAL IMPACT - Local Government</u>	FY 2020 (10 Mo.)	FY 2021	FY 2022
---	---------------------	---------	---------

LOCAL POLITICAL SUBDIVISIONS

<u>Cost - Local Governments</u>	\$0 to	\$0 to	\$0 to
Potential increase in water and sewer utility costs	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>

ESTIMATED NET EFFECT TO LOCAL POLITICAL SUBDIVISIONS	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>
---	------------------------------------	------------------------------------	------------------------------------

FISCAL IMPACT - Small Business

This proposal could increase the water bills for all small businesses served by Missouri's larger public water companies because it will allow an extra surcharge not currently paid by small businesses. For example, Missouri American Water Company serves approximately 27,000 commercial customers, including many small businesses that could all incur up to two additional rate increases per year.

FISCAL DESCRIPTION

This bill establishes the "Missouri Water and Wastewater Infrastructure Resilience Act," which specifies that a water or sewer company may file a petition and proposed rate schedules with the Public Service Commission to create or change an infrastructure resilience rate adjustment (IRRA) that provides for the recovery of pretax revenues associated with eligible infrastructure projects, provided that the IRRA produces IRRA revenues of at least \$1 million annually. The IRRA and any future changes must meet specific requirements.

The commission cannot approve an IRRA for a water or sewer corporation that has not had a general rate proceeding decided or dismissed in the three years before the filing of an IRRA petition unless the corporation has filed for or is the subject of a new general rate proceeding. A corporation cannot collect an IRRA for more than three years unless the corporation had filed for or is the subject of a new rate proceeding. In such case, the IRRA can be collected until the effective date of the new rate schedules.

At the time the corporation files a petition for an IRRA, it must submit proposed IRRA rate schedules and supporting documentation, and it must also serve the Office of Public Counsel with a copy of the petition, rate schedules, and documentation. Upon filing, the commission must publish a notice of the filing, and conduct an examination of the proposed IRRA, as specified in the bill. The commission may hold a hearing on the petition and any associated IRRA rate schedules. If the commission finds that a petition complies with the requirements, the commission must enter an order authorizing the corporation to implement the IRRA. A corporation may petition the commission for a change in its IRRA no more than twice in a 12-month period.

The bill specifies information the commission may consider in determining the appropriate pretax revenues and how the IRRA is calculated. If this information is unavailable and the commission has not provided it on an agreed-upon basis, the commission must use the last authorized overall pretax weighted average cost of capital for an IRRA or the last authorized overall pretax weighted average cost of capital in a general rate proceeding for the corporation.

FISCAL DESCRIPTION (continued)

At the end of each calendar year, the corporation must reconcile the differences between the revenues from an IRRA and the appropriate pretax revenues found by the commission for that period and submit the reconciliation and proposed IRRA to the commission for approval to recover or credit the difference.

A corporation that has an IRRA must file revised IRRA schedules when new base rates and charges become effective following a general rate proceeding that includes the IRRA eligible costs in the base rates. Once the eligible costs are included in corporation's base rates, the corporation must reconcile any previously unreconciled IRRA revenues to ensure that revenues resulting from the IRRA match as closely as possible the appropriate pretax revenues.

A corporation's filing of a petition to establish or change an IRRA is not considered a request for a general increase in the corporation's base rates and charges. Nothing in this bill impairs the authority of the commission to review the prudence or eligibility of specific projects in the proposed IRRA.

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
Division of Energy
Metropolitan St. Louis Sewer District



Kyle Rieman
Director
February 18, 2019

Ross Strobe
Assistant Director
February 18, 2019