COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1660H.02P
Bill No.: Perfected HCS for HB 734
Subject: Utilities
Type: Original
Date: April 20, 2021

Bill Summary: This proposal creates provisions allowing electrical corporations to issue bonds to finance energy transition costs.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
General Revenue Fund*	Unknown to (Could exceed $100,000)	Unknown to (Could exceed $100,000)	Unknown to (Could exceed $100,000)
Total Estimated Net Effect on General Revenue	**Unknown to (Could exceed $100,000)**	**Unknown to (Could exceed $100,000)**	**Unknown to (Could exceed $100,000)**

*Oversight assumes the net fiscal impact would not reach the $250,000 threshold.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Public Service Commission Fund (607)	$0 to ($41,030)	$0 to ($49,718)	$0 to ($50,205)
Other State Funds	$0 or Unknown to (Unknown)	$0 or Unknown to (Unknown)	$0 or Unknown to (Unknown)
Colleges and Universities	$0 or Unknown to (Unknown)	$0 or Unknown to (Unknown)	$0 or Unknown to (Unknown)
Total Estimated Net Effect on Other State Funds	**$0 or Unknown to (Could be greater than $41,030)**	**$0 or Unknown to (Could be greater than $49,718)**	**$0 or Unknown to (Could be greater than $50,205)**

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Public Service Commission Fund	0 to .5	0 to .5	0 to .5
Total Estimated Net Effect on FTE	**0 to .5**	**0 to .5**	**0 to .5**

☐ Estimated Net Effect (expenditures or reduced revenues) expected to exceed $250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

☐ Estimated Net Effect (savings or increased revenues) expected to exceed $250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
Local Government	**$0 or Unknown to (Unknown)**	**$0 or Unknown to (Unknown)**	**$0 or Unknown to (Unknown)**

FISCAL ANALYSIS

ASSUMPTION

Sections 393.1700 -- 393.1715 and 400.9-109

Officials from the **Department of Commerce and Insurance - Public Service Commission (PSC)** assume this act could result in cases before the PSC that would be comparable to financing cases of other types. Examples of recently completed financing cases incurred costs to the PSC at a rate of up to $20,000 per case. This legislation, if enacted, is anticipated to result in up to two cases each year ($41,030).

Additionally, Section 393.1700.2(4)(2) states that certain Commission costs associated with approval of and issuance of Securitized Utility Tariff bonds, namely consulting costs, are to be recovered through the bond proceeds. The costs associated with specialty consulting services are accordingly not included in the cost estimates to the PSC of up to $40,000 a year.

The legislation also contains various provisions that are not directly related to the Securitized Utility Tariff bond issuance process, and generally are not contained with similar bond issuance legislation enacted in other jurisdictions. These provisions include:

1) A requirement that the PSC "pre-approve" the prudence of certain renewable energy resources intended to replace retired coal generation facilities;

2) A requirement that the PSC approved "deferral accounting" for costs associated with retired coal facilities and replacement renewable resources;

3) A requirement that the PSC allow the recovery in rates of a "profit margin" for any purchased power agreements entered into by the electrical corporation to replace retired coal generation resources; and -

4) Allowing the utility to request the approval of certain ratemaking "principles" and treatment regarding the remaining undepreciated value of coal generating resources still in service.

The PSC is funded by an assessment on Commission regulated public utilities pursuant to Section 386.370 RSMo, and not by any state general revenue appropriations. Depending on the cumulative effect of PSC-impacting legislation passed in the current legislative session and the increased costs associated with that legislation to the PSC, the PSC may need to request an increase in our appropriation authority and/or FTE allocation as appropriate through the budget process.

The PSC estimates an additional .50 FTE at a cost of $41,030 in FY 2022, $49,718 in FY 2023 and $50,205 in FY 2024 to provide for the implementation of the changes in this proposal.

Oversight assumes Department of Commerce and Insurance - Public Service Commission could absorb some of the additional duties without adding an .50 FTE; It is unknown how many utility companies will apply to the Public Service Commission for a financing order authorization therefore, Oversight will range the cost from $0 (FTE can be absorbed and/or no companies apply) to the estimated provided by PSC (FTE is not absorbed) to the Public Service Commission Fund.

Oversight notes the Public Service Commission Fund had a balance of $6,710,395 as of January 31, 2021.

Officials from the **Department of Commerce and Insurance – Office of Public Council (OPC)** state that the OPC does not have the current staffing and resources to represent the public in the Public Service Commission bond financing cases that would be authorized by this legislation. Retaining an outside bond financing consultant in this area could require at least $100,000 or more from general revenue before the Office of the Public Counsel could adequately represent and protect the public.

Oversight does not have any information to the contrary. Therefore, Oversight will reflect cost estimates provided by OPC.

In response to a previous version, officials from the **Office of Administration - Facilities Management Design and Construction** assumed this legislation provides for the use of ratepayer-backed bond financing by Missouri electric companies, a lower-cost financing option than financing typically used by electric companies. The intent of the legislation is to reduce Missouri electricity bills by reducing electric company financing costs. However, the financing costs (principal and interest payments, etc.) of ratepayer-backed bond financing are passed on to ratepayers and are "non-bypassable". This legislation has an unknown fiscal impact to FMDC in that it is uncertain and impossible to predict the level of net fiscal impact incurred by FMDC by the net effect of the increased cost of financing costs paid by FMDC versus the possible cost avoidance of a reduction in electricity rates paid by FMDC.

Since it is unknown how many utility companies will apply to the Public Service Commission for a financing order authorizing the issuance of MO-EBRA bonds (if any), **Oversight** will reflect a range from $0 (no change in utility rates) to an unknown cost (less than $250,000) to the General Revenue Fund, Other State Funds, colleges and universities, and to political subdivisions.

Officials from the **Joint Committee on Administrative Rules** assume this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

Officials from the **Office of the Secretary of State** notes many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The Secretary of State's office 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 Secretary of State's office for Administrative Rules is less than $5,000. The Secretary of State's office recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, they also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what their office can sustain within their core budget. Therefore, they reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Department of Natural Resources**, the **Missouri Department of Conservation**, the **Missouri Department of Transportation** and the **State Tax Commission** each assume the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

In response to a previous version, officials from the **Attorney General's Office**, the **City of O'Fallon** and the **St. Louis Budget Division** each assumed the proposal will have no fiscal impact on their organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for those agencies.

Oversight only reflects the responses that we have received from state agencies and political subdivisions; however, other counties were requested to respond to this proposed legislation but did not. A general listing of political subdivisions included in our database is available upon request.

<u>House Amendment 2</u>

Oversight assumes House Amendment 2 makes multiple changes to Sections 393.1700 - 393.1715 and 400.9-109. Oversight assumes this amendment not change the fiscal impact as stated in the fiscal note for the committee substitute (HCS for HB 734) and therefore will not show any additional impact as a result of this amendment.

<u>House Amendment 3</u>

<u>Section 393.106 – Wholesale Electric Energy</u>

Officials from the **Department of Commerce and Insurance – Public Service Commission (PSC)** state it is unknown what the impact on workload for various departments of the PSC will be. The PSC is funded by an assessment on Commission-regulated public utilities pursuant to Section 386.370 RSMo, and not by any state general appropriations. Depending on the cumulative effect of all PSC impacting legislation passed in the current session and the associated increased costs associated with that legislation to the PSC, the PSC may need to request an increase in our appropriation authority and/or FTE allocation as appropriate through the budget process.

Oversight assumes PSC is provided with core funding to handle a certain amount of activity each year. Oversight assumes PSC could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, PSC could request an increase in their appropriation authority and/or FTE allocation as appropriate through the budget process.

Oversight requested additional information from the PSC regarding the intent and impact of the legislation. **PSC** stated if language clarifications were included, HB 835 and SB 335 impact to customers would vary depending on the utility's rate structure and profile of its customer base. The impact would be unknown until the utility's subsequent general rate case where the PSC would have the opportunity to look at how qualifying customers who participated in HB 835's and SB 335's structure impacted revenues, energy usage, and other aspects significant to the "all relevant factors" analysis the PSC uses in general rate cases.

In response to a similar proposal from this year (HCS for HB 835), officials from the **Office of Administration - Facilities Management, Design and Construction (FMDC)** stated this bill allows electric energy to be provided and obtained on a wholesale basis at any electric generating facility over a transformation and transmission interconnect under applicable federal tariffs of a regional transmission organization instead of under retail service tariffs filed with the Public Service Commission. FMDC assumes that this bill has the potential to impact utility costs paid by FMDC for state facilities. However, FMDC assumes the amount of any increase would be dependent on the structure and decisions of individual utility companies and any rate increases approved by the Public Service Commission. Due to the uncertainty of the proposal, FMDC states that the impact of this bill is $0 to Unknown.

Due to the uncertainty of the proposal, **Oversight** will reflect a range from $0 to an unknown cost to the General Revenue Fund, Other State Funds, colleges and universities as well as local political subdivisions **if** utility rates are adversely impacted. Oversight assumes the potential impact would not reach the $250,000 threshold.

In response to a similar proposal from this year (HCS for HB 835), officials from the **Attorney General's Office**, the **Missouri Department of Conservation**, the **Department of Natural Resources**, and the **Missouri Department of Transportation** each assumed the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

In response to a similar proposal from this year (SB 335), officials from the **University of Missouri** and the **Kansas City** each assumed the proposal will have no fiscal impact on their organization. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note.

Oversight only reflects the responses that we have received from state agencies and political subdivisions; however, other cities and utilities were requested to respond to this proposed legislation but did not. A general listing of political subdivisions included in our database is available upon request.

House Amendment 4

Section 393.355

In response to a similar proposal from this year (HB 154), officials from the **Office of Administration - Facilities Management, Design and Construction (FMDC)** assumed there would be a fiscal impact to any State facilities in the territory served by an electrical provider that provides a special rate to a facility whose primary industry is the processing of primary metals. It is understood that the special rate portion of this legislation is intended to apply primarily to Ameren Missouri, which provides electrical service for a number of State facilities. Without knowing the special rate that would be provided to the facilities by Ameren, FMDC is unable to calculate the impact on its utility costs. We have included our electrical cost from Ameren for the past two years for facilities that are owned and leased by FMDC:

Facilities	FY 2019	FY 2020
State-Owned/Institutional	$ 7,971,639	$ 6,593,644
Leased	$ 1,724,865	$ 1,558,946

Using a two year average of the costs listed above for the "State-Owned/Institutional Facilities, a 5% rate increase (for example), would result in a cost of $364,132 to the General Revenue Fund. If there were a 10% rate increase (for example), the fiscal impact would be a cost of $782,264.

Oversight assumes this proposal could increase utility cost for the Office of Administration as well as other state agencies and local governments. Since it is unknown how many or what special rate be approved (if any), Oversight will reflect a range from $0 (no utility will increase rates) to an unknown cost to the state and local political subdivisions for higher utility costs.

Officials from the **Department of Commerce and Insurance – Public Service Commission (PSC)** state that currently there would be no customers under the special rate in this proposal; therefore, Oversight assumes the unknown cost would be less than $250,000.

In response to a similar proposal from this year (HB 154), from the **Department of Commerce and Insurance**, the **Department of Natural Resources**, the **Department of Corrections**, the **Missouri Department of Conservation**, the **Missouri Department of Transportation**, the **University of Missouri**, the **Missouri Southern State University**, the **Missouri State**

University, the **Northwest Missouri State University**, the **Southeast Missouri State University**, the **State Technical College of Missouri** and the **University of Central Missouri** each assumed the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

Oversight only reflects the responses that we have received from state agencies and political subdivisions; however, other colleges and universities were requested to respond to this proposed legislation but did not. A general listing of political subdivisions included in our database is available upon request.

FISCAL IMPACT – State Government	FY 2022 (10 Mo.)	FY 2023	FY 2024
GENERAL REVENUE			
Cost – OPC Outside Counsel p. 4	($100,000)	($100,000)	($100,000)
Cost - Office of Administration Potential change in utility costs (Sections 393.1700 - 393.1715 and 400.9-109, 393.106 (HA 3) & 393.355 (HA 4))	$0 or Unknown to (Unknown)	$0 to Unknown to (Unknown)	$0 to Unknown to (Unknown)
ESTIMATED NET EFFECT TO GENERAL REVENUE	**Unknown to (Could exceed $100,000)**	**Unknown to (Could exceed $100,000)**	**Unknown to (Could exceed $100,000)**
PUBLIC SERVICE COMMISSION FUND (0607)			
Cost - DCI-PSC			
Salary	$0 to ($24,927)	$0 to ($30,212)	$0 to ($30,514)
Fringe Benefit	$0 to ($13,388)	$0 to ($16,167)	$0 to ($16,268)
Equipment and Expense	$0 to ($2,715)	$0 to ($3,339)	$0 to ($3,423)
Total Cost - DCI-PSC	$0 to ($41,030)	$0 to ($49,718)	$0 to ($50,205)
Total FTE Change - DCI-PSC	0 to .50 FTE	0 to .50 FTE	0 to .50 FTE
ESTIMATED NET EFFECT TO THE PUBLIC SERVICE COMMISSION FUND	**$0 to ($41,030)**	**$0 to ($49,718)**	**$0 to ($50,205)**
Estimated Net FTE Change to the PSC	0 to .50 FTE	0 to .50 FTE	0 to .50 FTE

OTHER STATE FUNDS			
Costs - potential change in utility costs (Sections 393.1700 -393.1715 and 400.9-109, 393.106 (HA 3) & 393.355 (HA 4))	$0 or Unknown to (Unknown)	$0 to Unknown to (Unknown)	$0 to Unknown to (Unknown)
ESTIMATED NET EFFECT TO OTHER STATE FUNDS	**$0 to Unknown to (Unknown)**	**$0 to Unknown to (Unknown)**	**$0 to Unknown to (Unknown)**
COLLEGES AND UNIVERSITIES			
Costs - potential change in utility costs (Sections 393.1700 - 393.1715 and 400.9-109, 393.106 (HA 3) & 393.355 (HA 4))	$0 or Unknown to (Unknown)	$0 to Unknown to (Unknown)	$0 to Unknown to (Unknown)
ESTIMATED NET EFFECT TO COLLEGES AND UNIVERSITIES	**$0 to Unknown to (Unknown)**	**$0 to Unknown to (Unknown)**	**$0 to Unknown to (Unknown)**

<u>FISCAL IMPACT – Local Government</u>	FY 2022 (10 Mo.)	FY 2023	FY 2024
LOCAL POLITICAL SUBDIVISIONS			
<u>Cost</u> - Local Governments Potential change in utility costs (Sections 393.1700 - 393.1715 and 400.9-109, 393.106 (HA 3) & 393.355 (HA 4))	<u>$0 or Unknown to (Unknown)</u>	<u>$0 to Unknown to (Unknown)</u>	<u>$0 to Unknown to (Unknown)</u>
ESTIMATED NET EFFECT TO LOCAL POLITICAL SUBDIVISIONS	**<u>$0 to Unknown to (Unknown)</u>**	**<u>$0 to Unknown to (Unknown)</u>**	**<u>$0 to Unknown to (Unknown)</u>**

<u>FISCAL IMPACT – Small Business</u>

Small businesses could have an increase/decrease in utility cost as a result of this proposal.

<u>FISCAL DESCRIPTION</u>

This proposal creates provisions relating to ratemaking for electrical corporations.

This act would allow electrical corporations to issue bonds to finance energy transition costs.

This act would modify provisions concerning electric generation facilities located in Cass County.

Currently, the Public Service Commission may approve a special rate, outside of a general rate proceeding, not based on the cost of service for electrical services provided to certain facilities if the Commission determines that but for the special rate the facility would not commence operations and that the special rate is in the best interest of the state. This bill changes the facilities that qualify for the special rates to include a facility whose primary industry is the processing of primary metals.

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 Commerce and Insurance
Department of Natural Resources
Attorney General's Office
Office of Administration
Office of the Secretary of State
Joint Committee on Administrative Rules
Department of Transportation
Missouri Department of Conservation
State Tax Commission
City of O'Fallon
St. Louis Budget Division
University of Missouri
Kansas City

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