COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 1660S.04C
Bill No.: SCS for HCS for HB 734
Subject: Banks and Financial Institutions; Bonds - General Obligation and Revenue; Corporations; Energy; Public Service Commission; Political Subdivisions; Utilities
Type: Original
Date: May 3, 2021

Bill Summary: This proposal modifies provisions relating to utilities.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2022	FY 2023	FY 2024
General Revenue Fund*	$0 to (Could exceed $100,000)	$0 to (Could exceed $100,000)	$0 to (Could exceed $100,000)
Total Estimated Net Effect on General Revenue	**$0 to (Could exceed $100,000)**	**$0 to (Could exceed $100,000)**	**$0 to (Could exceed $100,000)**

*The (unknown) impact reflects the possibility of the state and local political subdivisions paying higher utility costs as a result of the changes in the proposal. Oversight assumes potential fiscal impact of higher utility costs 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 ($333,333)	$0 to ($410,000)	$0 to ($420,250)
Other State Funds	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Colleges and Universities	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
Total Estimated Net Effect on Other State Funds	**$0 to (Could be greater than $333,333)**	**$0 to (Could be greater than $410,000)**	**$0 to (Could be greater than $420,250)**

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
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☒ 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 to (Unknown)**	**$0 to (Unknown)**	**$0 to (Unknown)**

FISCAL ANALYSIS

ASSUMPTION

Section 67.309 – Connection or Re-connection of Utility Service

In response to a similar proposal from this year (SB 230), officials from the **Department of Natural Resources** and the **Department of Commerce and Insurance** 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 230), officials from the cities of **Ballwin**, **Corder**, **Kansas City**, **O'Fallon**, **Springfield** and **St. Louis**, the **Cass County Public Water Supply District (PWSD) #2**, **Clarence Water/Wastewater**, **Corder Water/Wastewater**, **Lexington Water/Wastewater**, the **Little Blue Valley Sewer District**, the **Macon County PWSD #1**, the **Metropolitan St. Louis Sewer District**, the **Platte County PWSD #6**, the **South River Drainage District**, the **Ste. Genevieve County PWSD #1**, the **Tri County Water Authority** and the **Wayne County PWSD #2** 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 similar legislation from 2020, SB 1048, officials from the **Glasgow Village Street Lighting District** 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 for this section.

Section 386.895 – Renewable Natural Gas Program

In response to a similar proposal from this year (SB 141), officials from the **Department of Commerce and Insurance – Public Service Commission (PSC)** stated this legislation requires a rulemaking by the PSC in order to implement the provisions. Rulemakings generally result in an estimated cost of up to approximately $4,700. 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 their appropriation authority and/or FTE allocation as appropriate through the budget process.

Oversight assumes the PSC is provided with core funding to handle a certain amount of activity each year. Oversight assumes the PSC could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, the PSC could request funding through the appropriation process.

In response to a similar proposal from this year (SB 141), officials from **Office of Administration - Facilities Management, Design and Construction (FMDC)** assumed his bill requires the Public Service Commission to adopt by a rule a renewable natural gas program for gas corporations. It provides that any prudently incurred costs incurred by a gas corporation to establish and maintain renewable gas equipment and facilities shall be recovered by means of an automatic adjustment clause.

FMDC assumes that this bill will cause an increase in gas utility rates for state facilities. However, FMDC cannot determine the amount of any increase because it is unknown whether gas corporations would utilize this program or what amount of costs would be incurred by gas corporations and passed on to consumers in any given year. Therefore, the impact of this bill is $0 to unknown.

For reference, FMDC's average annual expenditure for natural gas for the past three fiscal years is $2,840,156; therefore, a one percent increase in gas prices would cost FMDC <u>$28,402 annually</u>.

Oversight assumes this proposal allows the Public Service Commission to authorize a prudently incurred costs incurred by a gas corporation to be recovered by means of an automatic adjustment clause. Oversight assumes any additional adjustments will be recouped by various customer classes by rate increases.

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 additional amortizations will be authorized (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.

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

In response to a previous version, officials from the **Department of Commerce and Insurance – Public Service Commission (PSC)** stated 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 their 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.

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.

Section 393.355 – Modifies Provisions for Utility Ratemaking

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. They have included their 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.

Sections 393.1700 - 393.1715 and 400.9-109 – Bonds to Finance Energy Transition Costs

Officials from the **Department of Commerce and Insurance - Public Service Commission (PSC)** assume this bill could result in cases before the PSC that would require outside financing and legal services by the Commission to ensure adequate review of the utility bond financing applications and protection of customer interests. Earlier versions of this act stated that the cost of outside consulting services for the PSC would be payable by the utility from bond proceeds and would not be an obligation of the state; however, this version of the act does not contain those provisions. While the PSC currently does not have direct experience with financing applications of the nature covered under the act, review of fiscal impact quantifications in other jurisdictions that have enacted similar legislation indicate that approximately $200,000 per case of outside services per case may be a reasonable cost estimate. This legislation, if enacted, is anticipated to result in up to two cases each year.

Oversight assumes Department of Commerce and Insurance - Public Service Commission could absorb some of the additional duties without requiring outside financing and legal services. It is unknown how many utility bond financing applications will need to be reviewed therefore, Oversight will range the cost from $0 to $400,000 (the estimated provided by PSC) to the PSC fund each year.

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

Officials from the **Office of the Public Counsel (OPC)** state that their agency does not have the current staffing and resources to represent the public in the Public Service Commission cases that would be authorized by this legislation. Retaining an outside 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 assumes Department of Commerce and Insurance – Office of Public Counsel (OPC) could absorb some of the additional duties without retaining an outside consultant. Therefore, Oversight will range the cost from $0 to (Could exceed $100,000) (the estimated provided by OPC) to the General Revenue Fund each year

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.

In response to a previous version, officials from the **Joint Committee on Administrative Rules** assumed this proposal is not anticipated to cause a fiscal impact beyond its current appropriation.

In response to a previous version, officials from the **Office of the Secretary of State** noted 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.

In response to a previous version, officials from the **Department of Natural Resources**, the **Missouri Department of Conservation**, the **Missouri Department of Transportation** and the **State Tax Commission** 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 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.

FISCAL IMPACT – State Government	FY 2022 (10 Mo.)	FY 2023	FY 2024
GENERAL REVENUE			
Cost – OPC Outside Counsel p.7	$0 to (Could exceed $100,000)	$0 to (Could exceed $100,000)	$0 to (Could exceed $100,000)
Cost - Office of Administration Potential change in utility costs (§§ 393.106, 393.355, 386.895, 393.1700-393.1715 & 400.9-109) p.3-9	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT TO GENERAL REVENUE	**$0 to (Could exceed $100,000)**	**$0 to (Could exceed $100,000)**	**$0 to (Could exceed $100,000)**
PUBLIC SERVICE COMMISSION FUND (0607)			
Cost - DCI-PSC Outside financing and legal services (§§ 393.1700-393.1715 & 400.9-109) p.7	$0 to ($333,333)	$0 to ($410,000)	$0 to ($420,250)
ESTIMATED NET EFFECT TO THE PUBLIC SERVICE COMMISSION FUND	**$0 to ($333,333)**	**$0 to ($410,000)**	**$0 to ($420,250)**

FISCAL IMPACT – State Government (continued)	FY 2022 (10 Mo.)	FY 2023	FY 2024
OTHER STATE FUNDS			
Costs - potential change in utility costs (§§ 393.106, 393.355, 386.895, 393.1700-393.1715 & 400.9-109) p.3-9	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT TO OTHER STATE FUNDS	**$0 to (Unknown)**	**$0 to (Unknown)**	**$0 to (Unknown)**
COLLEGES AND UNIVERSITIES			
Costs - potential change in utility costs (§§ 393.106, 393.355, 386.895, 393.1700-393.1715 & 400.9-109) p.3-9	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT TO COLLEGES AND UNIVERSITIES	**$0 to (Unknown)**	**$0 to (Unknown)**	**$0 to (Unknown)**

FISCAL IMPACT – Local Government	FY 2022 (10 Mo.)	FY 2023	FY 2024
LOCAL POLITICAL SUBDIVISIONS			
Cost - Local Governments Potential change in utility costs (§§ 393.106, 393.355, 386.895, 393.1700-393.1715 & 400.9-109) p.3-9	$0 to (Unknown)	$0 to (Unknown)	$0 to (Unknown)
ESTIMATED NET EFFECT TO LOCAL POLITICAL SUBDIVISIONS	**$0 to (Unknown)**	**$0 to (Unknown)**	**$0 to (Unknown)**

FISCAL IMPACT – Small Business

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

FISCAL DESCRIPTION

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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