

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 2295H.011
 Bill No.: HB 949
 Subject: Utilities; Public Service Commission
 Type: Original
 Date: March 3, 2025

Bill Summary: This proposal modifies provisions relating to utilities.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
General Revenue*	(\$712,978)	(\$854,496)	(\$870,323)
Total Estimated Net Effect on General Revenue **	(\$712,978)	(\$854,496)	(\$870,323)

***Oversight** notes due to the Department of Commerce and Insurance – Office of Public Council requesting 4 FTE (increased need for resources to respond to the changes in utility regulation) the fiscal impact will exceed \$250,000.

**This bill could increase utility costs to state departments and local governments if rate changes are made as a result of these new standards. Oversight assumes this would be an indirect impact and therefore will not show the impact in the fiscal note.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
Public Service Commission Fund (0607)*	(\$310,820)	(\$363,448)	(\$369,769)
ESTIMATED NET EFFECT ON OTHER STATE FUNDS	(\$310,820)	(\$363,448)	(\$369,769)

* **Oversight** notes due to the Department of Commerce and Insurance – Public Service Commission requesting 3 FTE (increased need for resources to respond to the changes in utility regulation) the fiscal impact will exceed \$250,000.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2026	FY 2027	FY 2028
General Revenue Fund (OPC)	4 FTE	4 FTE	4 FTE
Public Service Commission Fund (PSC)	3 FTE	3 FTE	3 FTE
Total Estimated Net Effect on FTE	7 FTE	7 FTE	7 FTE

- 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 2026	FY 2027	FY 2028
Local Government	\$0	\$0	\$0

*This bill could increase utility costs to state departments and local governments if rate changes are made as a result of these new standards. Oversight assumes this would be an indirect impact and therefore will not show the impact in the fiscal note.

FISCAL ANALYSIS

ASSUMPTION

Section 393.150 – Test Year for Rate Proceedings for Certain Utilities

Officials from the **Department of Commerce and Insurance – Office of Public Council (OPC)** anticipates it would need an increase in resources to respond to these changes in utility regulation. Requiring the OPC to have the skill set to project future test year costs and expenses would require additional time and additional skill sets not present at the OPC. OPC anticipates it would need four additional full-time employees to process these abbreviated cases. The discipline necessary to process these applications would require, at a minimum, that the OPC hire two auditors and engineers.

Oversight does not have any information to the contrary. Therefore, Oversight will show the fiscal impact (4 FTE) as estimated by the OPC to the General Revenue Fund.

Officials from **Department of Commerce and Insurance – Public Service Commission (PSC)** will need additional FTE to evaluate the projections used in calculating future test year expenses and plant. Utilities may apply an index such as the consumer price index or other indices to the historical costs incurred to predict the future test year costs. Currently Staff reviews historical costs only. The review of the projections will be an additional scope to Staff's audit that is not currently occurring and will take additional man-hours to complete. Staff will not only need to evaluate the appropriateness of using such an index but will still need to review the historical costs.

Oversight does not have any information to the contrary. Therefore, Oversight will show the fiscal impact (3 FTE) as estimated by the PSC to the Public Service Commission Fund (0607).

Officials from the **Office of Administration - Facilities Management, Design and Construction (FMDC)** assume that there would be a fiscal impact to the State's utility costs. However, without more information FMDC is unable to calculate the impact this would have on statewide utility costs for consolidated facilities managed by FMDC; \$0 to unknown impact.

Oversight assumes this proposal could increase utility costs to state departments and local governments if rate changes are made as a result of these new standards. Oversight assumes this would be an indirect impact and therefore will not show the impact in the fiscal note.

Officials from **Wayne County PWS #2** assume the proposal will have a fiscal impact.

Officials from the **Department of Commerce and Insurance**, the **Department of Revenue**, the **Missouri Department of Conservation**, and the **Missouri Department of Transportation** 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.

Officials from the **City of Kansas City**, the **City of O'Fallon**, the **Metropolitan St. Louis Sewer District - 7B Sewer**, the **Morgan County PWS #2**, the **South Ridge Drainage District - 7D Levee**, and the **St. Charles County PWS #2 - 7A Water** 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.

Oversight only reflects the responses received from state agencies and political subdivisions; however, other local political agencies were requested to respond to this proposed legislation but did not. A listing of political subdivisions included in the Missouri Legislative Information System (MOLIS) database is available upon request.

Rule Promulgation

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 (SOS)** note many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. 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 \$5,000. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes 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 the office can sustain with its core budget. Therefore, the SOS reserves 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.

<u>FISCAL IMPACT – State Government</u>	FY 2026 (10 Mo.)	FY 2027	FY 2028
GENERAL REVENUE FUND (0101)			
<u>Cost – OPC §393.150 - p. 3</u>			
Personal Service	(\$308,333)	(\$377,400)	(\$384,948)
Fringe Benefits	(\$176,220)	(\$214,430)	(\$217,455)
Equipment and Expense	(\$228,425)	(\$262,666)	(\$267,920)
<u>Total Cost – OPC</u>	<u>(\$712,978)</u>	<u>(\$854,496)</u>	<u>(\$870,323)</u>
FTE Change – OPC	4 FTE	4 FTE	4 FTE
ESTIMATED NET EFFECT TO GENERAL REVENUE FUND	<u>(\$712,978)</u>	<u>(\$854,496)</u>	<u>(\$870,323)</u>
Estimated Net FTE Change to the General Revenue Fund	4 FTE	4 FTE	4 FTE
PUBLIC SERVICE COMMISSION (0607)			
<u>Costs - PCS §393.150 - p. 3</u>			
Personnel Service	(\$175,226)	(\$214,476)	(\$218,766)
Fringe Benefits	(\$109,711)	(\$133,338)	(\$135,057)
Expense & Equipment	(\$25,883)	(\$15,634)	(\$15,946)
<u>Total Costs – PCS</u>	<u>(\$310,820)</u>	<u>(\$363,448)</u>	<u>(\$369,769)</u>
FTE Change - PCS	3 FTE	3 FTE	3 FTE
ESTIMATED NET EFFECT ON PUBLIC SERVICE COMMISSION (0607)	<u>(\$310,820)</u>	<u>(\$363,448)</u>	<u>(\$369,769)</u>
Estimated Net FTE Change to the Public Service Commission Fund	3 FTE	3 FTE	3 FTE

<u>FISCAL IMPACT – Local Government</u>	FY 2025 (10 Mo.)	FY 2026	FY 2027
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

Oversight assumes that small businesses could have a change in utility costs as a result of this proposal.

FISCAL DESCRIPTION

This bill specifies that beginning July 1, 2026, the test year for rate proceedings, if requested by certain utilities, will be a future year consisting of the first 12 full calendar months after the operation of law date for schedules stating new base rates filed by the utilities, unless the Public Service Commission makes a determination that using a future test year is detrimental to the public interest. The projected total rate base at the end of the future test year will be used to establish new base rates, which will not go into effect before the first day of the future test year.

Utilities that elect to use a future test year within 45 days of the end of the future test year will update their base rates as specified in the bill. The total ending rate base and expense items in the update can not be greater than the total ending rate base and expense items approved by the Commission in its report and order. The Commission and parties to the case have 60 days to review the accuracy of the updated information provided by the utility. The Commission must order the utility to file new tariff sheets reflecting the update, as specified in the bill.

Utilities that request a test year may not recover the costs of any plant investments made during the test year period under certain mechanisms set out in current law.

For utilities that elected to use a future test year, the utility must provide a reconciliation of the rate base at the end of the future test year to the Commission within 45 days of the end of the future test year. If the actual rate base is less than the rate base used to set base rates in the prior general rate proceeding, the portion of the annual revenue requirement reflecting the rate base difference must be returned to customers. The difference in revenue requirement will be placed into a regulatory liability to be returned to customers in the next general rate proceeding with such regulatory liability to accrue carrying costs at the utility's weighted average cost of capital.

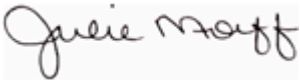
The Commission may consider any change in business risk to the utility resulting from implementation of the adjustment mechanism when setting the utility's allowed return in any rate proceeding, in addition to any other changes in business risk experienced by the utility.

For a utility that elected to use a future test year, the utility must provide a reconciliation of payroll expense, certain employee benefits, and rate case expense at the end of the future test year to the Commission within 45 days of the end of the future test year. If the actual amounts are less than the amounts used to calculate the revenue requirement in the prior general rate proceeding, the difference will be returned to customers. The difference in revenue requirement will be placed into a regulatory liability to be returned to customers in the next general rate case with such regulatory liability to accrue carrying costs at the utility's weighted average cost of capital.

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
Office of the Secretary of State
Joint Committee on Administrative Rules
Metropolitan St. Louis Sewer District - 7B Sewer
Morgan County PWSD #2
South River Drainage District - 7D Levee
St. Charles County PWSD #2 - 7A Water
Wayne County PWSD #2



Julie Morff
Director
March 3, 2025



Jessica Harris
Assistant Director
March 3, 2025