HB07-1037

Colorado Legislative Council Staff Fiscal Note

STATE
REVISED FISCAL IMPACT

(Replaces fiscal note dated April 2, 2007)

Drafting Number:	LLS 07-0230	**Date:**	April 15, 2007
Prime Sponsor(s):	Rep. Levy Sen. Fitz-Gerald	**Bill Status:**	Senate Appropriations
		Fiscal Analyst:	David Porter (303-866-4375)

TITLE: CONCERNING MEASURES TO PROMOTE ENERGY EFFICIENCY, AND MAKING AN APPROPRIATION THEREFOR.

Fiscal Impact Summary	FY 2007-2008	FY 2008-2009
State Revenue		
General Fund	$ 6,453	$ 6,636
Cash Funds - Public Utilities Commission Fixed Utility Fund	215,087	221,193
State Expenditures		
Cash Funds - Public Utilities Commission Fixed Utility Fund	$ 191,776	$ 197,902
FTE Position Change	2.0 FTE	2.0 FTE
Effective Date: Upon signature by the Governor.		
Appropriation Summary for FY 2007-2008: See State Appropriations section.		
Local Government Impact: None.		

Summary of Legislation

This bill, **as amended in the Senate State, Veterans, and Military Affairs Committee,** directs the Public Utilities Commission (PUC) to develop rules for programs that promote energy efficiency for investor-owned natural gas distributors. The rule-making proceeding must be completed by September 1, 2007, and will establish expenditure and natural gas savings targets, funding and cost-recovery mechanisms, and a bonus structure for demand-side management (DSM) programs. Specifically, the bill requires the PUC to adopt rules establishing the following:

- an expenditure target of at least 0.5% of revenues being spent on DSM programs;
- a savings target that is expressed in the amount of gas saved per expenditure;
- procedures to recover costs of DSM programs without having to file a rate case;
- a method of tying cost-recovery to the group, residential or non-residential, that is receiving the benefit of the DSM program; and
- a bonus structure for utilities that achieve the commission's targets.

Within 12 months of rule promulgation, gas distribution utilities are required to develop and begin implementing DSM programs for full-service customers. These programs may target low-income households. Utilities must submit an annual report to the PUC that describes the DSM program and documents expenditures and savings impacts. This report will be reviewed by the PUC in order to determine the bonus level, if any, the utility is eligible to collect.

Additionally, the amended bill addresses investor-owned electrical utilities and requires the PUC to do the following:

- establish energy savings and peak demand reduction goals using specific guidelines and other factors identified by the PUC;
- ensure that electric DSM programs are developed to give all classes of customers an opportunity to participate; and
- ensure that DSM investments by utility providers are profitable by either implementing incentive mechanisms specified by the bill or by developing other incentive mechanisms.

As was true with natural gas utilities, electric utilities must submit an annual report to the PUC. In turn, the PUC must submit an annual report to the Senate Business, Labor, and Technology Committee and the House of Representatives Business Affairs and Labor Committee. The PUC's report must indicate the progress made toward both natural gas and electricity utility demand-side management goals. The report should also indicate recommendations for statutory changes to better implement DSM programs.

State Revenue

State revenue will increase by $221,540 in FY 2007-08 and $227,828 in FY 2008-09. Revenue is generated by fees charged to the public utilities. The additional administrative costs incurred by the PUC as a result of this bill would be paid for from the Fixed Utility Fund (FUF). The FUF receives its revenues from an annual fee assessment (done on or before June 15 of the preceding year) based on a statutory formula (Sec. 40-2-112, C.R.S.). The formula is based on the utility's "gross operating revenues derived from intrastate utility business."

Whenever additional expenses are incurred against the FUF, this assessment must be raised to increase revenues to recover these costs, plus pay an additional 3 percent to the General Fund. Thus, cash fee revenues would have to be increased sufficiently to cover the direct expenses detailed in Table 2, page 3, plus credit 3 percent to the General Fund. Table 1 displays revenue breakdown by fund.

Table 1 - Revenue Breakdown

Fund	***FY 2007-08***	***FY 2008-09***
General Fund	$ 6,453	$ 3,215
Public Utilities Commission Fixed Utility Fund	215,087	221,193

State Expenditures

Department of Regulatory Agencies, Public Utilities Commission. The PUC expenditures will be $191,776 and 2.0 FTE in FY 2007-08 and $197,902 and 2.0 FTE in FY 2008-09. These expenditures are primarily to provide staff to carry out the bill's implementation and monitoring responsibilities. Table 2, details the cost components of HB07-1037.

Table 2 - Total Costs Under HB07-1037

Cost Components	**FY 2007-08**	**FY 2008-09**
Personal Services (2.0 FTE - Multiple Positions)	$ 169,764	$ 154,722
Operating Expenses	8,458	2,518
Legal Services (200/600 hours at $67.77 per hour)	13,554	40,662
Cash Funds Total	**$ 191,776**	**$ 197,902**
FTE	**2.0**	**2.0**

Staff responsibilities are as follows:

- ***FY 2007-08*** **-** developing rules to implement the bill will require staff to investigate engineering, economic, and financial accounting issues; and
- ***FY 2008-09*** **-** the commission will use staff to review cost recovery filings, compliance with bonus requirements, net benefit testing, establishing rate riders for residential and non-residential customers, create a report for the General Assembly.

Department of Law. The Department of Law will be required to provide legal services to the PUC. The legal services charges of $13,554 in FY 2007-08 and $40,662 in FY 2008-09 will be appropriated to the Department of Regulatory Agencies and transferred to the Department of Law. Legal services are expected to provide the following:

- ***FY 2007-08*** **-** assistance in developing rules that meet the requirements of the bill without conflicting with other laws; and
- ***FY 2008-09*** **-** reviewing the reporting, energy efficiency measures, and bonus programs and handling any litigation that might arise from conflicting opinions.

It is expected that once the program has been fully implemented and the reporting procedures have been proven, legal services will no longer be necessary.

Other Affected Parties. Additionally, the following six investor-owned utilities are impacted by this legislation:

- Excel Energy
- Atmos Energy
- Aquila Networks
- Kinder Morgan Inc.
- Eastern Colorado Utility Company
- Colorado Natural Gas Company

Expenditures Not Included

Pursuant to a Joint Budget Committee policy, funding for the items noted below will not be included in fiscal note expenditure estimates.

- group health, life and dental insurance
- inflation indices
- amortization equalization disbursements
- supplemental amortization equalization disbursements
- short-term disability
- leased space
- indirect costs

State Appropriations

This fiscal note indicates an appropriation to the Department of Regulatory Agencies of $191,776 cash funds from the Public Utilities Commission Fixed Utility Fund and 2.0 FTE for FY 2007-08. The Department of Law will require a $13,554 cash funds exempt transfer from the Department of Regulatory Agencies in FY 2007-08.

Departments Contacted

Regulatory Agencies Law