

Colorado Legislative Council Staff Fiscal Note

**STATE
FISCAL IMPACT**

Drafting Number: LLS 15-0486
Prime Sponsor(s): Rep. Tyler
 Sen. Jones

Date: March 24, 2015
Bill Status: House Transportation & Energy
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BILL TOPIC: PUC UTILITIES EXPLORE PERFORMANCE-BASED REGULATION

Fiscal Impact Summary*	FY 2015-2016	FY 2016-2017
State Revenue	<u>\$232,501</u>	<u>\$43,587</u>
General Fund	6,975	1,310
Cash Funds	225,526	42,277
State Expenditures	<u>\$225,526</u>	<u>\$42,277</u>
Cash Funds	200,059	35,696
Centrally Appropriated Costs**	25,466	6,581
TABOR Set-Aside	\$232,501	\$43,587
FTE Position Change	1.8 FTE	0.5 FTE
Appropriation Required: \$200,059 - Department of Regulatory Agencies (FY 2015-16)		

* This summary shows changes from current law under the bill for each fiscal year.

** These costs are not included in the bill's appropriation. See the State Expenditures section for more information.

Summary of Legislation

This bill declares that certain objectives, other than minimizing short-term economic costs, deserve to be considered in establishing the rates and policies of investor-owned public utilities (IOUs). These objectives include maximizing:

- consumer satisfaction;
- system reliability and resiliency;
- generation, delivery, and demand efficiency;
- system intelligence, and operations flexibility and capabilities;
- diversification of generation resources between centralized and distributed resources;
- and
- asset utilization rates;

while simultaneously, minimizing the following:

- consumer cost and risk;
- pollution, including greenhouse gas emissions; and
- water consumption.

Accordingly, the bill directs the Colorado Public Utilities Commission (PUC) to initiate an investigatory proceeding to explore and recommend alternatives for improved utility business and revenue models to align utility earnings with specified public policy objectives. Specifically, the PUC, at a minimum, must:

- determine suitable metrics to evaluate and gauge utility performance to provide incentives for utilities to meet specified policy objectives;
- define how the PUC could set utility earnings levels or other investment return mechanisms based on achievement of specified outcomes;
- develop innovative models of utility service delivery to achieve stated outcomes;
- propose new regulatory approaches that will improve the PUC's regulatory processes and procedures consistent with the new outcomes;
- identify potential additional market segmentation and rate classes;
- propose earnings structures in which better performance relative to stated outcomes results in higher earnings for utilities;
- explore options for eliminating the direct tie between sales volume and utility revenue; and
- explore and recommend options for customer earnings sharing.

The bill requires the PUC to conclude its investigation by August 1, 2016, and report its findings to the General Assembly and the Governor's Office by October 1, 2016.

State Revenue

Fixed Utility Fund. This bill is expected to increase state revenue by \$232,501 in FY 2015-16, of which \$225,526 will be credited to the Fixed Utility Fund (FUF) and \$6,975 to the General Fund. State revenue will increase in FY 2016-17 by \$43,656, of which \$42,347 will be credited to the Fixed Utility Fund (FUF) and \$1,310 to the General Fund. The administrative costs incurred by the PUC as a result of this bill and discussed in the State Expenditures section will be paid from the FUF.

The FUF receives its revenues from an annual fee assessment based on a statutory formula that utilizes the utility's gross operating revenue derived from intrastate utility business. Whenever additional expenses are incurred against the FUF, this assessment must be raised to increase revenues to recover direct and indirect costs, plus pay an additional three percent to the General Fund. Thus, cash fund revenues will have to be increased sufficiently to cover the DORA's direct expenses discussed in the State Expenditures section and detailed in Table 1, plus credit 3 percent to the General Fund.

TABOR Impact

This bill increases state revenue by \$232,501 in FY 2015-16, and by \$43,656 in FY 2016-17, which will increase the amount required to be refunded under TABOR by an equivalent amount. TABOR refunds are paid from the General Fund.

State Expenditures

Department of Regulatory Agencies (DORA). The DORA is estimated to incur additional expenses totaling cost of **\$225,526 in FY 2015-16** and **\$42,277 in FY 2016-17** from the Fixed Utility Fund.

Public Utilities Commission (PUC). The bill requires the PUC to conduct an investigatory proceeding to explore eight areas of performance-based regulation of Colorado's two IOUs and report its finding to the General Assembly and the Governor's Office by October 1, 2016. The PUC report must include its evaluation of the extent to which the IOUs would achieve specified performance outcomes, identify statutory or rule changes required to achieve these outcomes, estimate the time and budgetary requirements to implement a new, performance-based, regulatory structure, and authorize pilot programs, as needed, to test the effectiveness of any new, regulatory model proposals. Additional resources are required as the investigatory proceeding is outside the PUC's normal course of business. Since the proceeding must be concluded by August 1, 2016, associated expenses are allocated across two fiscal years on a pro-rata basis.

Office of Consumer Council (OCC). The OCC will be an active participant in the investigatory proceeding, and will incur additional costs to hire contract expertise. Contractors will need to perform a significant amount of original research analyzing, evaluating, and providing expert advice on utility issues. It is anticipated that a total of 350 hours of contract resources will be required at a total cost of \$49,000 in FY 2015-16.

Total expenses for the PUC and the OCC are summarized in Table 1, below.

Table 1. Expenditures Under House Bill 15-1250		
Cost Components	FY 2015-16	FY 2016-17
Personal Services - PUC	\$140,884	\$35,221
FTE	1.8	0.5
Operating Expenses and Capital Outlay Costs	10,175	475
Contract Expenses - OCC	49,000	0
Centrally Appropriated Costs*	25,467	6,581
TOTAL	\$225,526	\$42,277

* Centrally appropriated costs are not included in the bill's appropriation.

Centrally appropriated costs. Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. The centrally appropriated costs subject to this policy are estimated in the fiscal note for informational purposes and summarized in Table 2.

Table 2. Centrally Appropriated Costs Under House Bill 15-1250*		
Cost Components to Public Utilities Commission	FY 2015-16	FY 2016-17
Employee Insurance (Health, Life, Dental, and Short-term Disability)	\$14,547	\$3,567
Supplemental Employee Retirement Payments	10,920	3,014
TOTAL	\$25,467	\$6,581

*More information is available at: <http://colorado.gov/fiscalnotes>

Effective Date

The bill takes effect August 5, 2015, if the General Assembly adjourns on May 6, 2015, as scheduled, and no referendum petition is filed.

State Appropriations

For FY 2015-16, the Department of Regulatory Agencies requires a cash fund appropriation of \$200,059 from the Fixed Utility Fund. Of this amount, \$151,059 will be allocated to the Public Utilities Commission and \$49,000 will be allocated to the Office of Consumer Council.

State and Local Government Contacts

Regulatory Agencies