Colorado Legislative Council Staff

HB16-1441

FISCAL NOTE

FISCAL IMPACT: ☒ State ☐ Local ☐ Statutory Public Entity ☐ Conditional ☐ No Fiscal Impact

Drafting Number:	LLS 16-1066	**Date:**	April 25, 2016
Prime Sponsor(s):	Rep. Tyler Sen. Jones	**Bill Status:**	House Transportation and Energy
		Fiscal Analyst:	Marc Carey (303-866-4102)

BILL TOPIC: PUC CONSIDER FULL COST CARBON FOR ELEC GENERATION

Fiscal Impact Summary	FY 2016-2017	FY 2017-2018
State Revenue	**<u>$7,744</u>**	**<u>$7,909</u>**
General Fund	232	237
Cash Funds	7,512	7,672
State Expenditures	**<u>$8,913</u>**	**<u>$9,159</u>**
Cash Funds	7,512	7,672
Centrally Appropriated Costs	1,401	1,487
TABOR Impact*		$7,909
FTE Position Change	0.1 FTE	0.1 FTE
Appropriation Required: $7,512 - Department of Regulatory Agencies (FY 2016-17)		
Future Year Impacts: Ongoing revenue and expenditure increase.		

** There is no TABOR refund obligation in FY 2016-17 if House Bill 16-1405 is signed by the Governor.*

Summary of Legislation

This bill requires the Colorado Public Utilities Commission (PUC) to consider the following costs of greenhouse gas emissions when considering a utility's proposal for electric resource planning:

- the likelihood of new environmental regulations concerning greenhouse gas emissions; and
- the present and future costs associated with the emission of greenhouse gases such as carbon dioxide and methane based on the cost of carbon.

The PUC shall determine the costs annually based on a review of the most appropriate national and regional markets for carbon dioxide emissions (carbon) for Colorado. Electric resource plans submitted to the PUC by regulated utilities must account for the cost of greenhouse gas emissions based on this determination.

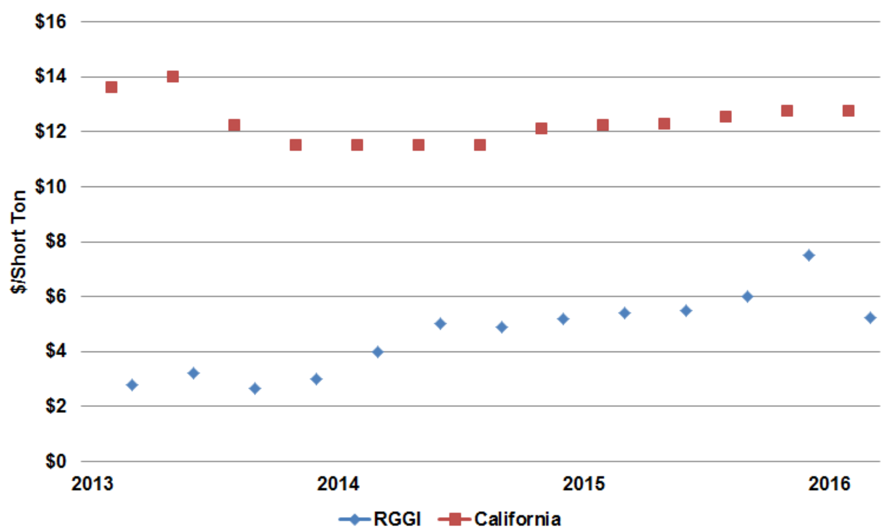
Background

Electric Resource Plans. Each of the two rate-regulated electric utilities in Colorado, Xcel Energy and Black Hills Colorado Electric, are responsible for submitting electric resource plans (ERPs) to the PUC. The most recent filing for Xcel Energy was in October, 2011. The most recent filing for Black Hills Colorado Electric was in April 2013. Updates to both are due in early June this year. In their 2011 ERP, Xcel Energy conducted a sensitivity analysis of electric rates under various scenarios regarding future carbon prices. In contrast, Black Hills did not conduct a sensitivity analysis as part of their 2013 plan as none of their electricity is produced through the combustion of coal.

National and Regional Carbon Markets. Carbon markets are established through emissions credit trading programs, where emissions credits are bought and sold at a market price. Currently, there are no national emissions trading programs, although the EPA's Clean Power Program (CPP) rules provide extensive guidance to states for the development and use of emissions trading programs. Implementation of the CPP rules was halted by a stay issued by the U.S. Supreme Court on February 9th, 2016, pending resolution to legal challenges.

Currently, there are two regional emissions credit trading programs operating in the United States: the northeast's Regional Greenhouse Gas Initiative (RGGI) and California's program established through passage of the state's Global Warming Solutions Act (Assembly Bill 32). In both programs, emissions credits are bought and sold through auctions. The RGGI has been conducting quarterly auctions since September 2008, while California has been conducting auctions since November 2012. In January 2014, California and the Canadian province of Quebec formally linked their carbon markets, and in 2015, Ontario and Manitoba announced they would join the program. Figure 1 presents historical RGGI and California auction prices from 2013 through March 2016.

Figure 1
Market Prices from RGGI and California Emissions Trading Auctions



State Revenue

Fixed Utility Fund (FUF). This bill is expected to increase state revenue by $7,744 in FY 2016-17, of which $7,512 will be credited to the FUF and $232 to the General Fund. State revenue will increase in FY 2017-18 by $7,909 of which $7,672 will be credited to the FUF and $237 to the General Fund. The administrative costs incurred by the PUC as a result fo 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 PUC'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 from the annual fees that utilities pay to the FUF, which will increase the amount of money required to be refunded under TABOR. TABOR refunds are paid out of the General Fund. It should be noted that if House Bill 16-1405 is signed and becomes law, the TABOR refund obligation is eliminated for FY 2016-17.

State Expenditures

This bill increases expenditures of the PUC by $8,913 and 0.1 FTE in FY 2016-17 and $9,159 and 0.1 FTE in FY 2017-18 from the FUF. These costs and workload are shown in Table 1 and explained below.

Table 1. Expenditures Under House Bill 16-1441

Cost Components	FY 2016-17	FY 2017-18
Personal Services	$6,947	$7,577
FTE	0.1	0.1
Operating Expenses and Capital Outlay Costs	565	95
Centrally Appropriated Costs*	1,401	1,487
TOTAL	**$8,913**	**$9,159**

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

Colorado Public Utilities Commission. The PUC currently determines the cost of carbon once every four years as part of it's evaluation of utility ERPs. Requiring this determination to be done annually will require 0.1 FTE of work for a rate financial analyst from the PUC's advisory staff.

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 16-1441		
Cost Components	**FY 2016-17**	**FY 2017-18**
Employee Insurance (Health, Life, Dental, and Short-term Disability)	$807	$808
Supplemental Employee Retirement Payments	594	679
TOTAL	**$1,401**	**$1,487**

Effective Date

The bill takes effect August 10, 2016, if the General Assembly adjourns on May 11, 2016, as scheduled, and no referendum petition is filed.

State Appropriations

For FY 2016-17, the Department of Regulatory Agencies requires an appropriation of $7,512 from the Fixed Utilities Fund and an allocation of 0.1 FTE

Departmental Difference

Colorado Public Utilities Commission. The PUC identified an expenditure of $65,356 and 0.8 FTE in FY 2016-17 and $67,124 and 0.8 FTE thereafter to implement this bill. The PUC currently determines the cost of carbon once every four years as part of its evaluation of ERPs, and reports that the price of carbon has been a highly contested issue. Requiring this determination to be done annually will require three months work for a professional engineer from the PUC's litigation staff and three months work for a rate financial analyst from the PUC's advisory staff. In addition, they request one day for both an administrative law judge and a court reporter to develop, record, and recommend the decision for the PUC to annually set the price of carbon for Colorado utilities. Because the PUC is already performing this duty once every four years, and because there are currently no national carbon markets and only two regional carbon markets each with well established market clearing prices to inform the PUC's carbon price determination per the bill's requirements, these costs were reduced in the fiscal note.

State and Local Government Contacts

Regulatory Agencies