

Fiscal Note – 2009-10 Session

Bill #: H3546-0 **Complete Date:** 03/23/10

Chief Author: BEARD, MICHAEL

Title: ENERGY-RELATED REQ IMPACT REPORT

Fiscal Impact	Yes	No
State	X	
Local		X
Fee/Departmental Earnings		X
Tax Revenue		X

Agency Name: Public Utilities Commission

This table reflects fiscal impact to state government. Local government impact is reflected in the narrative only.

Dollars (in thousands)	FY09	FY10	FY11	FY12	FY13
Expenditures					
General Fund			247		
Less Agency Can Absorb					
-- No Impact --					
Net Expenditures					
General Fund			247		
Revenues					
General Fund			247		
Net Cost <Savings>					
General Fund			0		
Total Cost <Savings> to the State					

	FY09	FY10	FY11	FY12	FY13
Full Time Equivalents					
General Fund			0.35		
Total FTE			0.35		

Bill Description

This bill would require the Public Utilities Commission to conduct a study and prepare a report on the impact on ratepayers and energy prices projected to 2025 from activities undertaken by electric utilities to reduce air emissions at power plants pursuant to M.S. 216B.1692 and by electric and natural gas utilities implement the Next Generation Energy Act of 2007. The bill requires the study to be presented to the legislature by January 15, 2011.

Assumptions

It is the PUC's understanding that the author of this legislation intended to require a study focusing primarily on the 2007 changes (Minn. Laws 2007, Chapter 3) to Minn. Stat. §216B.1691, (Renewable Energy Objectives REO), which changed the REO into Renewable Energy Standards (RES). However, that is not what the language of the bill as introduced does. This fiscal note is prepared based on the HF 3546 as introduced.

The PUC would need to hire a consultant to perform the analyses of costs, rate impacts, and effects on energy prices. These analyses will require sophisticated modeling abilities and economic forecasting techniques. PUC staff resources will also be required to manage the contract, provide information to the consultants, help define the assumptions to be used and options to be considered, and to prepare the report to the legislature.

The note assumes a report submission date of January 15, 2011. Given the complexity of the required report and the difficulty in locating a qualified consultant who has limited previous experience with Minnesota utilities, PUC staff does not expect the report can be completed by the report deadline.

Minn Stat. 216B.1692, Emissions Reduction Rider: This statute applies to investor-owned electric utilities with generating facilities located in Minnesota who undertake voluntary air emissions reductions or who undertake required air emissions projects in conjunction with required mercury reduction projects under Minn. Stat. §216B.68 et seq.

The cost and rate impact analysis will need to look at the projects undertaken to-date by Xcel Energy and Minnesota Power, and possible future projects by those utilities. The analysis will also need to examine whether Otter Tail Power may use this provision. The other major investor-owned electric utility serving Minnesota customers, Interstate Power and Light, has no significant generating facilities in Minnesota.

Minn. Laws 2007, Chapter 136 (Next Generation Energy Act): The Act is twenty-seven pages long and contains a large number of statutory additions and changes. The Act has provisions that affect almost all utilities operating in Minnesota: investor-owned electric and gas utilities, municipal utilities, municipal power agencies, cooperative distribution utilities, and generation and transmission cooperatives.

A number of provisions of the Act would have limited impacts on costs or rates and most of the one-time actions required by the Act have already been implemented, and would limited future cost implications. The PUC assumes that only the following major provisions of the Act would be analyzed in the consultant's study:

- Article 2, Section 5, Energy Conservation Improvement: This section establishes a statewide goal to achieve annual energy savings equal to 1.5% of annual retail energy sales of electricity and natural gas. All electric and natural gas utilities in Minnesota are affected by the requirements of this section.
- Article 5 Global Climate Change, Greenhouse Gas Emissions: This Article sets a goal of reducing statewide greenhouse gas emission across all sectors of the economy such that emissions will be at least 80% below 2005 levels by 2025 and 80% below 2005 levels by 2050.

The analyses of these two articles would be highly complex and necessarily require the consideration of a large number of assumptions and alternative scenarios. For purposes of this fiscal note, the PUC assumes only the requirements and restrictions placed on utilities would be included in the study. If a broader analysis of all affected sectors were to be required, the fiscal impacts would increase by approximately 50% over those shown below. In addition, if the costs of all articles and sections of the Act were to be included, not just the major ones, the fiscal impacts would increase by approximately 25% over those shown below.

Expenditure and/or Revenue Formula

Consultant @1,000 hours x \$200/hour	= \$200,000
RFP Preparation/Evaluation @ 240 hours x avg. \$50/hr (.1 FTE)	= \$ 12,000
On-going contract management @ \$100,000/FTE x .25 FTE	= \$ 25,000
5% contract contingency	= <u>\$ 10,000</u>
TOTAL	\$247,000

Long-Term Fiscal Considerations

Local Government Costs

References/Sources

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EBO Comments

I have reviewed this Fiscal Note for accuracy and content.

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