Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: Am. Sub. H.B. 95 of the 129th G.A.

Date: May 25, 2011

Status: As Enacted

Sponsor: Rep. Stautberg

Local Impact Statement Procedure Required: Yes

Contents: To revise state energy policy principally to address natural gas price regulation

State Fiscal Highlights

STATE FUND	FY 2012	FY 2013	FUTURE YEARS
Consumers' Counsel Operating Fund (Fund 5F50)			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Potential increase	Potential increase	Potential increase
Other State Funds – expenditures for natural gas			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Potential increase	Potential increase	Potential increase

Note: The state fiscal year is July 1 through June 30. For example, FY 2010 is July 1, 2009 – June 30, 2010.

- By proposing changes to the rate setting procedure of the Public Utilities Commission (PUCO), the Ohio Office of the Consumers' Counsel (OCC) may incur additional expenses to evaluate the impact of the rate changes made possible by H.B. 95. The nature of the increase, if any, is dependent on the frequency and complexity of the rate adjustments authorized by the bill.
- H.B. 95 permits certain changes to natural gas rates that would otherwise not occur but for the provisions in the bill. The direct effect of the changes would likely be an increase in natural gas prices paid by state government.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2011	FY 2012	FUTURE YEARS
Counties, municipalities, townships, school districts			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Potential increase	Potential increase	Potential increase

Note: For most local governments, the fiscal year is the calendar year. The school district fiscal year is July 1 through June 30.

- H.B. 95 permits certain changes to natural gas rates that would otherwise not occur but for the provisions in the bill. The direct effect of the changes would likely be an increase in natural gas prices paid by local governments.

Detailed Fiscal Analysis

H.B. 95 modifies current law by permitting the use of projections in valuing a natural gas company's property, for the purpose of determining rates in a rate case. Current law requires that the property to be valued be "owned," "held," "leased," or "received" by the company seeking the rate increase and "used and useful" or "in use."

The bill also permits natural gas companies to propose another change to the rate-calculation formula, with regard to the company's revenues and expenses. Specifically, it allows natural gas companies to propose adjustments to the revenues and expenses for any changes that are "reasonably expected to occur" during the test period or the 12-month period immediately after the test period.[1] The bill requires the natural gas company proposing the adjustments to identify and quantify each adjustment. If PUCO determines that these adjustments based upon estimated data are just and reasonable, PUCO is required to incorporate the proposed adjustments into its determination of the natural gas company's revenues and expenses. Once actual data for all incorporated adjustments becomes known, PUCO must issue an order on the rate or charge adjustments. After the order is issued, a natural gas company must submit reconciliation adjustments that refund to customers (if applicable) the (positive) difference between the actual revenues collected by the natural gas company as compared to the projected revenues using the rates and charges previously incorporated using estimated data. A second and final reconciliation will occur after the 12-month effective period, and further rate adjustments may be made at that time.

H.B. 95 also expressly permits PUCO to allow, for a natural gas company in a rate case, an automatic adjustment mechanism or device that allows the company's rates or charges for a regulated service or goods to fluctuate automatically with changes in a specified cost or costs.

The bill alters various laws governing alternative rate plans for natural gas companies. An alternative rate plan is a method for establishing rates and charges for distribution service, fully regulated commodity sales services, or fully regulated ancillary sales services that does not rely on the law governing rate cases.

Additionally, the bill authorizes a natural gas company to apply to PUCO in order to implement a capital expenditure program. The bill requires PUCO to approve the application if the proposed program is consistent with the natural gas company's continuing law obligation to furnish necessary and adequate services and facilities. An

[1] Under current law governing rate-increase cases, a public utility's permitted gross annual revenues are calculated by adding the amount of return (determined by PUCO) to the public utility's cost of rendering service. This cost must be determined during a "test period," which is, unless PUCO orders otherwise, the 12-month period beginning six months before the application filing date.

approved application authorizes the natural gas company to defer, for subsequent recovery, certain costs related to the capital expenditure program.

Many other regulatory changes are included in the bill; however, they do not have a fiscal impact.

Fiscal effect

It is possible that the provisions in H.B. 95 will increase expenditures by the Office of the Consumers' Counsel (OCC). The agency utilizes internal staff as well as experienced consultants to evaluate complex regulatory issues. The presence of these new types of natural gas rate adjustments proposed in the bill, as well as the nature of the property valuation provisions, might necessitate additional expenditures to conduct an analysis of natural gas companies' applications and proposals. The nature of the expenditure increase, if any, is dependent on the frequency and complexity of the rate adjustments authorized by the bill. Any potential increase in OCC spending would be paid from the Consumers' Counsel Operating Fund (Fund 5F50). H.B. 95 makes changes to certain requirements regarding natural gas companies filing reports with PUCO, but LSC staff think it likely that PUCO will be able to accommodate those changes with existing resources. PUCO officials agree that that is likely. However, the rate adjustment and reconciliation provisions in H.B. 95, if utilized to a significant degree, could create additional costs for PUCO.

H.B. 95 permits certain changes to natural gas rates that would otherwise not occur but for the provisions in the bill. Such rate changes would affect amounts paid by a gas company's customers, including the state and its political subdivisions, for the company's services. The direct effect of the changes would likely be an increase in natural gas prices paid by state and local governments (and other consumers); but, indirect effects may mitigate, in part, the direct effect of this bill.

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