



Ohio Legislative Service Commission

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Fiscal Note & Local Impact Statement

Bill: [Sub. H.B. 379 of the 129th G.A.](#) **Date:** December 5, 2012
Status: As Reported by Senate Energy & Public Utilities **Sponsor:** Rep. Blessing

Local Impact Statement Procedure Required: No

Contents: To authorize regulatory changes and rate adjustments for utilities that are water-works and sewage disposal system companies

State Fiscal Highlights

STATE FUND	FY 2013	FY 2014	FUTURE YEARS
Consumers' Counsel Operating Fund (Fund 5F50)			
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. 379. The nature of the increase, if any, is dependent on the frequency and complexity of the rate adjustments authorized by the bill.

Local Fiscal Highlights

LOCAL GOVERNMENT	FY 2012	FY 2013	FUTURE YEARS
Counties, municipalities, townships, school districts			
Revenues	- 0 -	- 0 -	- 0 -
Expenditures	Minimal increase	Minimal increase	Minimal 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. 379 permits certain changes to water and sewage disposal rates that would otherwise not occur but for the provisions in the bill. The direct effect of the changes would likely be a minimal increase in water and sewage disposal prices paid by those local governments and school districts served by investor-owned water-works and sewage disposal system companies.

Detailed Fiscal Analysis

H.B. 379 modifies current law by permitting the use of projections in valuing a water-works or sewage disposal system 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." Much of the language of the bill mirrors language recently enacted for natural gas utilities by Am. Sub. H.B. 95 of the 129th General Assembly.

The bill also permits water-works or sewage disposal system companies to propose another change to the rate-calculation formula, with regard to the company's revenues and expenses. Specifically, it allows water-works or sewage disposal system 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 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 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 water-works or sewage disposal system company must submit reconciliation adjustments that refund² to customers (if applicable) the (positive) difference between the actual revenues collected by the water-works or sewage disposal system company as compared to the projected revenues using the rates and charges previously incorporated using estimated data. A second and final reconciliation may occur after the 12-month effective period if PUCO deems it appropriate, and further rate adjustments may be made at that time.

Additionally, H.B. 379 makes changes to existing law that authorizes a water-works company to apply to PUCO in order to implement an infrastructure improvement surcharge to cover infrastructure plant costs (as well as a fair and reasonable rate of return). The recoverable infrastructure plant costs are limited to those capital improvements that PUCO determines to be useful in rendering public utility service. Current law caps the surcharges at 3% of the rates and charges applicable to each affected customer class. Among other changes, the bill increases this cap to 4.25%.

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 no more than six months before the application filing date.

² Reconciliation adjustments cannot be revised upwards; thus, refunds are the only possible outcome to these adjustments.

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

Fiscal effect

Under current law, a water-works or sewage disposal system company may collect an infrastructure improvement charge, and the company is limited to three surcharges in effect at any time. H.B. 379 increases the maximum amount of each individual surcharge for a water-works company from 3% to 4.25% of the rates and charges applicable at the time the infrastructure improvement surcharge application is filed. Infrastructure improvement charges for sewage disposal system companies remain capped at 3% per surcharge.

The increase in the maximum level of the surcharge to 4.25% essentially allows a water-works company to increase rates by 1.25 additional percentage points for each potential surcharge. If three surcharges were proposed simultaneously, it would constitute a 3.75% rate increase as compared to current law. Local governments and school districts are customers of water-works companies, but these regulated utilities are limited to certain geographical³ footprints throughout the state. Even a 3.75% increase for some of the largest local government entities would represent an amount less than \$1,000. For example, the city of Tiffin spent approximately \$15,000 on water and wastewater utilities last year, which means the fiscal impact of H.B. 379 would not exceed \$563, and even that additional expense would only occur if its local utility implemented three infrastructure improvement surcharges at 4.25% apiece. Thus, while the bill might increase costs for those political subdivisions served by regulated water-works companies, the increase would be minimal.

It is possible that the provisions in H.B. 379 will increase expenditures by the Office of the Consumers' Counsel (OCC). The agency utilizes internal staff as well as outside consultants to evaluate complex regulatory issues. The presence of these new types of rate adjustments proposed in the bill might necessitate additional expenditures to conduct an analysis of water-works or sewage disposal system companies' applications and proposals. According to OCC, 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. 379 makes changes to certain requirements regarding water-works or sewage disposal system companies filing reports with PUCO, and a PUCO official stated that it will be able to accommodate those changes with existing resources. The agency does not anticipate any additional or marginal costs because of the bill.

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³ To see a map of areas where waste and wastewater companies are subject to PUCO regulation, visit the link on PUCO's web site: http://www.puc.state.oh.us/pucogis/STATEMAP/Water2010_a.pdf.