Consolidated Fiscal Note – 2009-10 Session

Bill #: H3618-0 **Complete Date:** 04/26/10

Chief Author: BLY, DAVID

Title: ENERGY SECURITY & ECON DVLPMNT ACT

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

Agencies: Public Utilities Commission (04/26/10) Commerce (04/26/10)

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
Net Expenditures					
General Fund			1,516	1,274	1,012
Commerce			691	661	682
Public Utilities Commission			825	613	330
Misc Special Revenue Fund			17,198	34,396	51,594
Commerce			17,198	34,396	51,594
Revenues					
General Fund			1,516	1,274	1,012
Commerce			691	661	682
Public Utilities Commission			825	613	330
Misc Special Revenue Fund			17,198	34,396	51,594
Commerce			17,198	34,396	51,594
Net Cost <Savings>					
General Fund			0	0	0
Commerce			0	0	0
Public Utilities Commission			0	0	0
Misc Special Revenue Fund			0	0	0
Commerce			0	0	0
Total Cost <Savings> to the State					

	FY09	FY10	FY11	FY12	FY13
Full Time Equivalents					
General Fund			13.00	13.00	13.00
Commerce			8.00	8.00	8.00
Public Utilities Commission			5.00	5.00	5.00
Total FTE			13.00	13.00	13.00

Consolidated EBO Comments

I have reviewed this Fiscal Note for accuracy and content.

EBO Signature: RYAN BAUMTROG
Date: 04/26/10Phone: 651-201-8038

Fiscal Note – 2009-10 Session

Bill #: H3618-0 **Complete Date:** 04/26/10

Chief Author: BLY, DAVID

Title: ENERGY SECURITY & ECON DVLPMNT ACT

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			825	613	330
Less Agency Can Absorb					
-- No Impact --					
Net Expenditures					
General Fund			825	613	330
Revenues					
General Fund			825	613	330
Net Cost <Savings>					
General Fund			0	0	0
Total Cost <Savings> to the State					

	FY09	FY10	FY11	FY12	FY13
Full Time Equivalents					
General Fund			5.00	5.00	5.00
Total FTE			5.00	5.00	5.00

Bill Description
HF 3618 establishes standard renewable rates for energy generation from various sizes of small wind, photovoltaic devices, and anaerobic digesters.

Section 1: CITATION
- May be referred to as the Energy Security and Economic Development Act of 2010.

Section 2: DEFINITIONS
- Provides a number of new definitions which relate to other provisions of the bill.

Section 3: STANDARD RENEWABLE RATE ESTABLISHED
- States the purpose of the legislation is to provide opportunities for Minnesotans to own and invest in renewable energy generation by requiring utilities to purchase such generation at reasonable prices.

Section 4: STANDARD RENEWABLE RATE.
- By December 1, 2010, public utilities (investor-owned and rate-regulated cooperatives) must file standard renewable rates for Commission approval. Retail cooperatives, municipal power agencies, and generation and transmission cooperatives must adopt standard renewable rates consistent with this section within 90 days of the first Commission order.
- States the objective of the standard renewable rates is to promote development of renewable electric generators that will contribute significantly to meeting the state's renewable energy objectives and standards.
- The standard rates apply to: wind generators of no more than 7 MW and photovoltaic system no greater than 500 kW.
- The standard rates consist of the highest applicable rate under the Cogeneration and Small Power Production requirements of 216B.164 and incentive payments from the public benefits account established by this legislation.
- Requires utilities to enter into power purchase agreements (PPAs) for a term of not less than 20 years from commissioning of the facility, with a constant rate over the period.
- Establishes interim standard renewable rates (yet to be defined in the legislation) to be in effect until the Commission establishes final rates.
- Requires the Commission to determine final standard rates for at least 9 size/type combinations of renewable generation by October 1, 2010. Includes a number of requirements and considerations the Commission must use in establishing the rates.
- Starting by February 1, 2013 and annually thereafter, the Commission must review the reasonableness of the standard rates, considering a number of factors.
- If the Commission finds after notice and hearing that renewable standards under 216B.1691 are not likely to be met without extending this rate to projects connected to the transmission system, the Commission may require utilities to enter into agreements with these projects.
- Limits voluntary sales of renewable generation facilities to non-qualified owners and establishes on ownership of multiple projects. Requires Commission approval for a sale to another qualifying owner.
- Sets out how capacity of wind systems must be calculated.
- Requires the tariff to ensure that utilities will interconnect renewable generators to the electrical *distribution* system "to the maximum extent of state jurisdiction allowed under federal law."
- Requires the Commission to consult with the Federal Energy Regulatory Commission, the Midwest Independent System Operator (MISO) and others to establish an interconnection request review procedure to determine whether interconnection under state authority is possible.
- Requires the Commission to issue orders creating interconnection tariffs for a special interconnection process for renewable energy projects.
- Requires the Commission to establish standard interconnection contracts and schedules.
- Authorizes direct cost recovery by utilities for the interconnection of renewable electrical generators provided by this bill.
- Requires the Commission to approve a standard contract to be used for all PPAs energy made under the standard renewable rate. Specifies elements that must be included in the contracts.

Section 5: COST RECOVERY
- Requires the Commission to order the utilities to file seek automatic rate adjustment to recover costs of the energy purchased under the rates and all other costs required to comply with the bill's requirements.

Section 6: INFORMATION REQUIRED

- Utilities required to file specified information by March 1, 2012 and annually thereafter.
- Commission may require information from renewable generators and owners and additional information from utilities relevant to carrying out its duties.

Section 7: PUBLIC BENEFITS SURCHARGE

- Establishes a public benefits surcharge on all retail electric sales in Minnesota, with exceptions for certain size (unspecified in the bill) industrial customers and those receiving low-income discounts.
- Establishes surcharge levels starting in July 1, 2010.
- Creates a public benefits surcharge account to be administered by the Department of Commerce (DOC).
-

Section 8: STANDARD RENEWABLE RATE INCENTIVE PAYMENTS

- Specifies qualifications for payments to generators from the account, payment periods, and payment levels.
- Defines processes and reporting requirements for continuing payments from the account in the case of default on lending agreement by the generator and other similar situations.
- Establishes requirements for eligibility determinations by DOC.

Section 9: LOAN ELIGIIBILITY

- A renewable generator is eligible for loans under 216C. 39, subd. 5

Section 10: REPORT

- Requires the Commission to submit reports to the governor and legislature by January 1, 2012, January 1, 2013, and every four years thereafter, on the number of new generators, the environmental effects of the generation, the effects on progress toward reaching state renewable energy standards, recommendations for legislative changes and changes to the standard rates, and the actions taken by the Commission to implement this legislation.

Section 11: EFFECTIVE DATE

- Sections 1-10 effective the day following enactment.

Assumptions

The Commission would have two new over-arching responsibilities resulting from this bill:
a) establishing on-going review, evaluation and reporting on the standard renewable rates, and
b) establishing interconnection standards and contracts, and managing an interconnection process for generation under the tariffs.

Standard renewable rates:

- By October 1, 2010, the Commission is to determine final standard renewable rates for nine different time/type/size combinations of wind and solar generation.
  - The definition of renewable electric generator under Sec. 2, subd. 10 (1) includes anaerobic digesters. Since such facilities are not referenced again in the legislation, the Commission assumes this is an error, and that rates will not need to be established for these facilities.
  - While the bill provides for (as yet unspecified) interim values against which to evaluate final rates, the Commission is charged with undertaking a detailed analysis for each of the nine combinations above before establishing the final rates which includes:
    i. the cost of generation, based on economic analysis;
    ii. The amount of federal, state, and utility subsidies for such projects, excluding renewable energy credits (RECs);
    iii. A reasonable profit (= average ROE approved by the Commission for electric utilities in previous 12 months); and
    iv. Any adjustment to reach the minimum amount necessary to contribute significantly to accomplishing the state REO/RES.

- The Commission does not believe it will be possible to conduct this analysis by October 1, 2010 without significant diversion of resources from other critical dockets and projects, some of which have statutory deadlines, such as rate cases. Even if resources are so diverted, the Commission must afford due process to utilities, state agencies, and other parties who are affected by the results to participate in the process, and allow for possible reconsideration, which may make it impossible to meet the October 1 date.

- By December 1, 2010, receive (for approval) "standard renewable rates" from IOUs and regulated cooperatives.
    - Whether utilities can meet this deadline is dependent on the Commission establishing the final rates prior to December 1, 2010.
    - The Commission will need to allow for comment and review by parties and approve each filing.

- By February 1, 2013, and annually thereafter, review the "standard renewable rates" and revise them if they are not a reasonable approximation using the most recent data, or if they are not effective meeting the REO/RES.
    - This annual review is resource intensive, requiring consideration of a number of factors.
    - Will require an annual proceeding to allow interested parties to participate and the Commission will need to issue an annual order.
    - May need to hold notice and hearing, and extend "standard renewable rates" to facilities connected to transmission system as well as distribution system if the review shows the REO/RES not being met adequately.

- The Commission would need to approve all voluntary sales from one qualified owner to another.
    - It is difficult to foresee how many such sales the Commission is likely to be asked to review. The Commission assumes the number will be small.

<u>Interconnection and Standard Contracts:</u>

- The Commission must consult with FERC and MISO (and others) to establish an interconnection request review procedure to promptly and efficiently determine whether the Commission may interconnect a renewable generator requesting interconnection under state authority.
    - The Commission assumes that it would design, implement and oversee a state-specific process for the inter-connection of renewable generators at the distribution level.
    - A consultant will be required to design the process and train PUC staff on implementing the process.

- Establish standard interconnection contracts and schedules.
    - The resource commitment for this task depends in part on to what extent the Commission can rely on the interconnection standards previously adopted for distributed generation under 216B.1611 and the under 5 Mw C-BED standard contracts currently under review in Docket N0. E-999/CI-09-753. This note assumes this previous work will be the starting point for the analysis and thus there will be fewer resources needed than if we were starting from "scratch."

- Approve a standard contract to be used in all power purchase agreements under the "standard renewable rate." Must include the price, a method to adjust the price for inflation, and contract duration.
    - This appears to conflict with Subd. 5, which calls for constant rates over the entire term of a power purchase agreement. If this is not clarified in the legislation, will likely be a contested issue the Commission will have to resolve in a proceeding.
    - As with the standard interconnection agreement above, the resource commitment depends in part on to what extent the Commission can rely on the interconnection standards previously adopted for distributed generation under 216B.1611 and the under 5 Mw C-BED standard contracts currently under review in Docket N0. E-999/CI-09-753. This note assumes this previous work will be the starting point for the analysis and thus there will be fewer resources needed than if we were starting from "scratch."
    - The Commission assumes it will not have to approve individual power purchase agreements established under the bill. However, if Commission approval of individual contracts proves to be necessary, the work load of the Commission will increase dramatically.

Utility Cost Recovery

- Requires utilities to file rate schedules providing for automatic adjustment of retail charges in direct relation to the cost of electricity purchased here, and all other costs required to comply with standard renewable rate.
  - Each utility's rider filing will need to be reviewed in a docket and orders issued.
  - There will also need to be an at least annual review of each rider to establish the appropriate recovery rate factor each year.
  - The general category of "other costs" may be controversial.

Reporting by the Commission

- The costs of reporting are included in FTE estimates for staff assigned to renewable rates.

Expenditure and/or Revenue Formula

Costs/FTE:

Salary/Benefits =	$100,000
Equipment/Supplies - $	6,000
Rent	4,000
Cost/FTE	$110,000

Task	Need Resources	FY 2010	FY 2011	FY 2012	FY 2013
Standard Renewable Rate Establishment and Management	2 FTE on-going@ $110/FTE		220,000	220,000	220,000
Inter-Connection Process	Consultant@ $225/hour X 1500 hours		275,000	62,500	0
	3 FTE@ $110/hr		330,000	330,000	330,000
TOTAL			825,000	612,500	550,000

The PUC's FY 2013 costs for review of the standard renewable rate will be reimbursed from Commerce's Public Benefits Surcharge Account. PUC assumes that these expenditures are included in Commerce's fiscal note for FY 2013 expenditures.

Current bill language does not appropriate funds to the department. If additional funds are not appropriated it will be difficult to implement this language. This proposal would compete for existing resources to meet other agency requirements. Unless the agency is to absorb the costs, a general fund appropriation is required. The additional funding would be recovered through an assessment on the regulated entities.

Long-Term Fiscal Considerations

As noted, the bill creates substantial responsibilities for the Commission that will carry over to future biennia. It is not known how the minimum prices established for eligible renewable resources in the bill will compare with market prices for such resources. Establishing a price floor can lead to uneconomic outcomes if market prices go lower than the minimum. If that were to occur under the proposed rates, it would cause utility ratepayers to pay more for energy than could be obtained in an open market.

Local Government Costs

We are not aware of any direct effects on local government. However, those municipalities who own electric distribution systems would be affected by the requirement.

References/Sources

FN Coord Signature: MARSHA BATTLES-JENKS
Date: 04/26/10 Phone: 651-201-2219

EBO Comments

I have reviewed this Fiscal Note for accuracy and content.

EBO Signature: RYAN BAUMTROG
Date: 04/26/10 Phone: 651-201-8038

Fiscal Note – 2009-10 Session

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Chief Author: BLY, DAVID

Title: ENERGY SECURITY & ECON DVLPMNT ACT

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

Agency Name: Commerce

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			691	661	682
Misc Special Revenue Fund			17,198	34,396	51,594
Less Agency Can Absorb					
-- No Impact --					
Net Expenditures					
General Fund			691	661	682
Misc Special Revenue Fund			17,198	34,396	51,594
Revenues					
General Fund			691	661	682
Misc Special Revenue Fund			17,198	34,396	51,594
Net Cost <Savings>					
General Fund			0	0	0
Misc Special Revenue Fund			0	0	0
Total Cost <Savings> to the State					

	FY09	FY10	FY11	FY12	FY13
Full Time Equivalents					
General Fund			8.00	8.00	8.00
Total FTE			8.00	8.00	8.00

Bill Description
HF 3618 requires each electric utility providing retail service in the state to have a "standard renewable rate" tariff for certain renewable energy generation projects (wind projects with a maximum capacity of seven megawatts and photovoltaic systems with maximum capacity of 500 kilowatts). The stated objective of the "standard renewable rate" is to promote development of renewable generation to accomplish the renewable energy objectives and standards specified in Minnesota Statutes §216.1691. The "standard renewable rate" tariff requires the utility to contract with any and all projects that agree to generate electricity from renewable technologies, and requires the utility to pay above market rates for that electricity. The "standard renewable rate" is to have two components: (1) the highest price determined under Minnesota Statute §216B.164; and (2) an incentive payments paid from a newly established public benefits surcharge.

HF3618 requires each public utility (5) providing electric service in Minnesota to file a "standard renewable rate" tariff for approval by the PUC by December 1, 2010 and that all electric cooperatives, Generation and Transmission electric cooperatives, and municipal power agencies to adopt a standard renewable rate within 90 of PUC's approval of the first such rate. Additionally, the bill mandates that the Minnesota Public Utilities Commission (Commission) create a state-wide system for facilitating these renewable facility interconnections into the distributions of all of the state's approximately retail (municipal, cooperative and state-regulated) electric utilities. Finally, HF3618 establishes a Public Benefit Surcharge for a "standard renewable rate incentive payment" program administered by Department of Commerce.

Assumptions
This bill includes a number of mandates on the Commission and, therefore, also on the Minnesota Office of Energy Security (OES), as the Commission's analytical "arm" and main public interest advocate. These mandates must be fulfilled within a relatively short period of time and will lead to a material increase in the agencies' workloads including:

- Each of the five electric "public" utilities must file a request for a "standard renewable rate" tariff. All of these requests must be reviewed and processed by the OES and decided by the Commission prior to December 1, 2010.
- A "standard renewable rate" tariff needs to be established so that it is available to be adopted by all electric cooperatives, Generation and Transmission electric cooperatives, and municipal power agencies to adopt a standard renewable rate within 90 of PUC's approval of the first such rate. The tariffs are to review annually.
- At the same time as the tariffs are in process, the OES and the Commission must establish a state "queue" system for methodically studying the reliability and electric "grid" impacts of interconnecting renewable projects.
- The OES and the Commission must establish standard interconnection contracts and interconnection schedules.
- Once the tariffs, interconnection "queue" system, and the standard contracts and schedules are in place, in addition to managing the queue's operation, the Office and Commission will need to review a potentially very large number of purchase power contracts executed by retail utilities to ensure compliance with the statutes and tariff provisions as well as arbitrate and decide disputes regarding such contracts.
- The department is assuming that these costs are recoverable under our general assessment authority.
- The department is responsible for establishing a "public benefits surcharge account" that is to provide incentive payments to "qualified" renewable generation owners. As specified in the bill, the public benefit surcharge on all retail Minnesota sales starts at $0.00025/Kwh and increases by $.00025 per year for each of the subsequent three years, which in turn, results in an public benefits surcharge account of approximately $17.2 million in year one to approximate $68.8 million per year in 2013 and each year there after.

Current bill language does not appropriate funds to the department. If additional funds are not appropriated this requirement will compete for resources with other agency requirements. Unless the agency is to absorb the costs, a general fund appropriation is required. The additional funding will be recovered through an assessment on the regulated entities.

Expenditure and/or Revenue Formula
Based on the workload assumptions detailed above there is need for a number of new staff. Staff would include 1 project manager, 4 utility analyst positions, 1 state planner (facilities) positions, and 2 clerical/technical staff for accounting, docketing, scheduling, data entry related work. Staff needs by category are estimated to be:

1. "Standard Renewable Rate" tariff establishment and management:

1 FTE mid-level analyst and 0.5 FTE clerical/technical for docketing and data entry.

2. "Interconnection process establishment and management:

1 FTE mid-level analysts, 1 FTE facilities planner and 0.5 FTE clerical/technical for scheduling and data entry.

3. "Public Benefits Surcharge Account" establishment, qualification determination and management:
1 Project Manager for public benefits surcharge account, 2 FTE mid-level analysts to determine eligibility/quality assurance and 1 FTE technical/clerical for data entry and accounting.

There will also be other costs related to computer software that will allow tracking of items in the queue. Software and development would cost approximately $50,000 in FY 2011.

Total Estimated Costs				
Position Title		FY11	FY12	FY13
Project Manager	1 FTE	124,000	128,000	132,000
Mid-level analysts	4 FTE	368,000	380,000	392,000
Facility Planner	1 FTE	92,000	95,000	98,000
Tech/Clerial	2 FTE	57,000	58,000	60,000
		641,000	661,000	682,000
Software development		50,000		
		691,000	661,000	682,000

Following is a table with estimates for the public benefits surcharge account. These values are shown as revenue and expenditures in the special revenue fund.

Public Benefits Surcharge Account Estimates

Scheduled Surcharge Changes	2008 Total Minnesota Retail Sales* (megawatthours (MWH))	Conversion from megawatthours to kilowatthours (MWH *1000)	Schedulted Surcharge rates per kilowatthour	Annual Public Benefits Surcharge Collection
7/1/2010	68,791,615	68,791,615,000	$ 0.00025	$ 17,197,903.75
7/1/2011	68,791,615	68,791,615,000	$ 0.00050	$ 34,395,807.50
7/1/2012	68,791,615	68,791,615,000	$ 0.00075	$ 51,593,711.25
7/1/2013	68,791,615	68,791,615,000	$ 0.00100	$ 68,791,615.00
Thereafter...				$ 68,791,615.00

Long-Term Fiscal Considerations
The costs are on-going, unless noted otherwise, since the requirements of the bill will require a continued level of support in future fiscal years.

Local Government Costs
HF 3618 will impact local units of government as they will be responsible for overseeing the local permitting, construction, placement, operation and environmental, technological, and neighboring citizens' impacts of customers' renewable energy projects within local government's boundaries. This impact could be significant.

References/Sources

FN Coord Signature: TODD JONES
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EBO Comments

I have reviewed this Fiscal Note for accuracy and content.

EBO Signature: RYAN BAUMTROG
Date: 04/26/10 Phone: 651-201-8038