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FISCAL IMPACT STATEMENT

LS 7250 **NOTE PREPARED:** Jan 12, 2004
BILL NUMBER: HB 1338 **BILL AMENDED:**

SUBJECT: Sustainable Energy.

FIRST AUTHOR: Rep. Pelath **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: This bill establishes the Sustainable Energy Institute to: (1) ensure that utility customers may participate in and benefit from sustainable energy programs; and (2) promote and implement sustainable energy programs. The bill requires energy utilities to contract with the Institute to provide energy efficiency and demand-side management services to customers. The bill allows an energy utility to recover costs associated with sustainable energy programs.

Effective Date: Upon passage.

Explanation of State Expenditures: *Sustainable Energy Board:* This bill creates the Sustainable Energy Board to establish and oversee the Sustainable Energy Institute. The Board will consist of the seven nonvoting members: the Lieutenant Governor, the Chair of the IURC, the Utility Consumer Counselor, and four legislative members. The Board also has 13 Governor-appointed members representing academia, the energy industry, business and residential energy consumers, the environment, and labor.

Members of the Board who are not state employees are not entitled to a per diem, however, they are entitled to reimbursement for travel expenses incurred in connection with the member's duties. However, a member who is a state employee but not a legislator is not entitled to compensation. Legislative members of the Board are entitled to receive the same per diem and travel allowances as those paid to legislative members of interim study committees. The Board is required to meet at least quarterly. The Board is also required to appoint a program liaison to staff the Board and a fiscal agent to receive and expend the Board's funds.

The Board is responsible for the selection of a university or nonprofit entity to house and operate the Sustainable Energy Institute. The Board is charged with appointing the Institute's director. The Board may direct the Institute to study and formulate particular issues.

Sustainable Energy Institute: The Institute will be housed at a university or nonprofit entity chosen by the Board. The Institute is charged with providing a variety of initiatives and programs to assist with the promotion of energy efficiency and the use of energy from sustainable sources. The bill requires the Institute to develop plans to implement and develop sustainable energy programs throughout the state. The Institute is required to report to the Board at least annually and upon the Board's request. By July 1 of each year, the Institute is required to provide a report to the Governor, the Board, and the Legislative Council on its activities. Additionally, the Institute is required to submit an assessment of renewable energy markets and the potential for energy efficiency improvement in Indiana.

The expenses incurred by the Board and the Institute would be funded through a fee assessment made on the state's electric and natural gas utilities (See *Funding for Sustainable Energy Board, below).* This bill does not make an appropriation. The Board's funding will depend on future legislative action.

IURC: This provision will require the IURC to calculate a fee assessment on the state's natural gas and electric utilities based on the Board's budget, as approved by the General Assembly, and on each utility's proportionate share of retail energy use in Indiana. Additionally, the IURC would be required to review any new rate adjustment requests that result from the assessment imposed in the bill. The Office of the Utility Consumer Counselor (OUCC) would also be involved in any additional hearings. While the bill could increase the IURC and OUCC's administrative costs, it is presumed that both the IURC and OUCC could cover the increased workload using existing staff and resources.

State Board of Accounts: The bill requires the State Board of Accounts to audit the Sustainable Energy Institute on an annual basis. The Institute would pay the full cost of the audit.

Increases in the retail rates of utilities could potentially increase state agencies' energy costs.

Background on IURC and OUCC Funding: The operating budgets of the IURC and OUCC are funded by regulated utilities operating in Indiana. The IURC determines the rate at which to bill the utilities based on the two agencies' budgets, less reversions, divided by the total amount of gross intra-state operating revenue received by the regulated utilities for the previous fiscal year. Based on this formula, utilities are currently billed approximately 0.10% of their gross intra-state operating revenues to fund the IURC and OUCC. In FY 2003, fees from the utilities and fines generated approximately $10.9 M.

Explanation of State Revenues: *Funding for Sustainable Energy Board:* The budget of the Sustainable Energy Board will be approved by the General Assembly and includes a contingency fund equal to $100,000. Funding for the Board, based on the approved budget, will be provided from fee assessments placed on the state's electric and natural gas utilities (including municipally owned utilities and REMCs). Utilities would each pay a proportionate share of the Board's budget based on each utility's proportionate share of retail energy use in Indiana as determined by the IURC. Utilities may pay the assessment quarterly or in a lump sum at the beginning of the utility's fiscal year.

The bill specifies that the fee assessments paid for the Board's activities are recoverable expenses for ratemaking purposes. Additionally, upon the IURC's authorization, utilities may recover up to 10% of the annual savings received by the utility's customers as a result of the Institute's services in the form of a retain rate adjustment.

Secondary Impacts: The establishment of the Sustainable Energy Institute could have several secondary impacts on state revenues.

Potential Sources of Increases in State Revenue: If the Institute's activities are able to generate new investment by energy-related firms in Indiana, state revenue from various corporate taxes could increase. Likewise, if more jobs are created, revenue from the state's Income and Sales Tax would also increase. Additionally, if utility rates are increased as a result of the Sustainable Energy Board's fee assessment, General Fund revenue from the state's 3% Gross Utility Tax could also increase.

Potential Sources of Decreases in State Revenue: The state generally imposes a Sales Tax on electricity and natural gas sales. If the activities initiated by the Sustainable Energy Institute encourage consumers to reduce their consumption of energy, state Sales Tax revenue would decrease. Additionally, if the bill's provisions result in a reduction in a taxpaying utility's sales and the firm is not able to raise rates through the mechanisms provided in the bill, the state's gross utility tax could be negatively impacted.

Explanation of Local Expenditures: Municipally owned electric and gas utilities would be subject to the bill's requirements.

Explanation of Local Revenues:

State Agencies Affected: Indiana Utility Regulatory Commission; Office of the Utility Consumer Counselor; State Board of Accounts; Legislative Council; Governor; Lieutenant Governor.

Local Agencies Affected:

Information Sources:

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