

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6291

BILL NUMBER: HB 1085

DATE PREPARED: Jan 24, 2002

BILL AMENDED: Jan 23, 2002

SUBJECT: Service Areas of Electricity Suppliers.

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**FUNDS AFFECTED: GENERAL
 X DEDICATED
 FEDERAL**

IMPACT: State

Summary of Legislation: (Amended) This bill modifies procedures that must be followed when a municipally owned electric utility seeks to change its assigned service area to include territory that has been annexed by the municipality. It provides that the municipally owned electric utility must pay additional severance damages to the incumbent electricity suppliers in the annexed area based on electricity sold to service accounts established in the annexed area during the five-year period beginning on the effective date of the annexation ordinance. The bill provides that the severance payments must continue for each service account for the five-year period beginning on the date the service account is established. It requires the Indiana Utility Regulatory Commission (IURC) to determine and enforce payment of severance damages when the parties cannot agree on the amount of the damages. The bill requires the IURC to approve a change in the boundaries of the assigned service areas of electric utilities when the affected utilities mutually agree to the change, unless the IURC determines after a public hearing that the change would result in certain consequences.

Effective Date: July 1, 2002.

Explanation of State Expenditures: (Revised) While the bill modifies the current procedures a municipal utility must follow when extending its service area into an annexed territory, it is not expected to have a significant impact on the number of the Commission's proceedings or its administrative costs.

Background on IURC and OUCC Funding: The operating budgets of the IURC and the Office of the Utility Consumer Counselor (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 2001, fees from the utilities and fines generated approximately \$8.6 M.

Explanation of State Revenues:

Explanation of Local Expenditures: *Municipally Owned Utilities:* This bill establishes additional severance damages that a municipal utility would be required to pay an incumbent utility in the event that a service area is expanded. The severance damages are based on any permanent accounts that the incumbent utility established during a five-year period beginning one year prior to the area being annexed by the municipality. These additional severance damages are calculated by assessing a fee of \$0.001 for each kilowatt hour of electricity billed the newly established accounts each month over a five-year period, beginning on the date in which the account was established. (The per kilowatt hour assessment is limited to 170,000 kilowatt hours per month per customer.) Municipal utilities would be required to pay these damages within 30 days after the year they are accrued.

Municipally owned utilities are organized as nonprofit local government agencies. They pay neither taxes nor dividends. Operating costs are covered through the sale of electricity to ratepayers. Money for capital expenditures is often raised through bonds. While the provisions in this bill will not raise the taxes of customers served by affected municipal utilities, they could raise their rates. There are 79 municipally owned electric utilities in Indiana, 25 of which are under the jurisdiction of the IURC for rate regulation.

Explanation of Local Revenues:

State Agencies Affected: Indiana Utility Regulatory Commission; Office of the Utility Consumer Counselor.

Local Agencies Affected: Municipally owned utilities; Trial courts.

Information Sources: Indiana Utility Regulatory Commission, *2000-2001 Annual Report*.