

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

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6107
BILL NUMBER: HB 1128

NOTE PREPARED: Apr 21, 2011
BILL AMENDED: Apr 20, 2011

SUBJECT: Renewable Energy Resources

FIRST AUTHOR: Rep. Koch
FIRST SPONSOR: Sen. Merritt

BILL STATUS: As Passed Senate

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) *Renewable Energy Resources*: This bill provides that the following qualify as a renewable energy resources for purposes of the statute that provides financial incentives for clean coal and energy projects: (1) Hydrogen. (2) Coal bed methane derived from a naturally occurring biogenic process. (3) Low temperature, oxygen starved gasification of municipal solid waste. (4) Methane recovered from landfills for the production of electricity. Defines a "compliance project" as a project undertaken by an energy utility to comply with certain specified federally mandated requirements.

Federally Mandated Costs: This bill requires an energy utility that seeks to recover federally mandated costs incurred in connection with a compliance project to apply to the utility regulatory commission (IURC) for a certificate of public convenience and necessity for the compliance project. It sets forth certain factors that the IURC must consider in determining whether to grant a certificate. The bill specifies that if the IURC approves a proposed compliance project and the projected federally mandated costs associated with the project, the following apply: (1) 80% of the approved costs shall be recovered by the energy utility through a periodic retail rate adjustment mechanism. (2) 20% of the approved costs shall be deferred and recovered by the energy utility as part of the next general rate case filed by the energy utility with the IURC. (3) Actual costs exceeding the projected federally mandated costs of the approved compliance project by more than 25% shall require specific justification and approval before being authorized in the energy utility's next general rate case.

Nuclear Energy: This bill allows a nuclear energy production or generating facility to qualify for certain financial incentives available for clean energy projects if the facility: (1) supplies electricity to Indiana retail customers on July 1, 2011; and (2) is undergoing a comprehensive life cycle management project to enhance the safety and reliability of the facility while it is licensed to operate by the United States Nuclear Regulatory Commission.

Voluntary Clean Energy Portfolio Standard Program: It requires the IURC to adopt rules to establish the voluntary clean energy portfolio standard program to provide incentives to participating electricity suppliers to obtain specified percentages of electricity from clean energy sources in accordance with two clean portfolio standard goals (CPS goals). The bill sets forth qualifying clean energy resources for purposes of the program. It amends the definition of "renewable energy resources" for purposes of the statute providing financial incentives for clean energy projects to consist of certain clean energy resources that qualify for the voluntary clean energy portfolio standard program. The bill requires the IURC to determine, before approving an application for participation in the program, that approving the application will not result in an increase to the electricity supplier's retail rates and charges above what could reasonably be expected if the application were not approved. It provides that a participating electricity supplier may own or purchase clean energy credits to meet a CPS goal. Beginning in 2014, the bill requires: (1) a participating electricity supplier to report annually to the IURC on the supplier's efforts to meet the CPS goals; and (2) the IURC to include in its annual report to the Regulatory Flexibility Committee a summary of the information reported by participating electricity suppliers.

State Utility Forecasting Group: This bill amends the Indiana Code section concerning the state utility forecasting group's (SUFG) annual study of renewable energy resources as follows: (1) Requires the SUFG to study certain specified clean energy resources. (2) Provides that the IURC: (A) may direct the SUFG to study additional clean energy resources; and (B) shall direct the SUFG concerning the appropriate level of detail for the report prepared in connection with the study. (3) Removes the requirement that the SUFG evaluate potential renewable energy generation opportunities from biomass and algae production systems.

Effective Date: (Amended) Upon passage; July 1, 2011.

Explanation of State Expenditures: (Revised) *Indiana Utility Regulatory Commission (IURC):* This bill will increase administrative expenditures of the IURC by requiring the IURC to evaluate petitions to allow utilities to recover federally mandated costs and capital investments costs. The bill also requires the IURC to include in its annual report to the Regulatory Flexibility Committee a summary of the information reported by electricity suppliers participating in the Voluntary Clean Energy Portfolio Standard Program (established in this bill). It is estimated that the IURC will be able to implement this provision with its existing level of resources.

State and Local Government Utility Expenditures: This bill could increase expenditures by state and local governments for utilities. It is estimated that the amendment to the definition of renewable energy resources will increase the number of utilities that are eligible for the incentives provided for implementing that type of technology, and therefore allow more utilities to adjust rates and recover costs for such technology.

(Revised) *State Utility Forecasting Group (SUFG):* This bill provides that the IURC may direct the SUFG to study additional clean energy resources as the IURC considers appropriate and shall direct the SUFG concerning the appropriate level of detail for the report prepared in connection with the study. The SUFG's current level of resources should be sufficient.

Explanation of State Revenues: *Utility Rate Increases:* To the extent that this bill increases utility rates, there could be an increase in Utility Receipts Tax (URT), Utility Services Use Tax (USUT), and Sales Tax collections. The amount of any increase is indeterminable and will ultimately depend on rate adjustments allowed by the IURC for cost recovery.

(Revised) Background Information - The Voluntary Clean Energy Portfolio Standard Program is a financial incentive program for supplying electricity generated from clean energy resources. The bill specifically lists energy included in the definition of clean energy resources. An electricity supplier that seeks to participate in the program must submit an application to the IURC showing a reasonable expectation of being able to supply 10% of its electricity from clean energy by December 31, 2025. The bill provides that the IURC must approve the application if the IURC determines that approving the application will not result in an increase in utility rates above what could reasonably be expected if the application were not approved.

As used in the bill, "electricity supplier" means a public utility that furnishes retail electric service to the public, but does not include municipally owned utilities.

Explanation of Local Expenditures: See *Explanation of State Expenditures*.

Explanation of Local Revenues:

State Agencies Affected: IURC; All.

Local Agencies Affected: All.

Information Sources:

Fiscal Analyst: Diana Agidi, 317-232-9867.