



**Legislative
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SB 18-064

**FINAL
FISCAL NOTE**

Drafting Number: LLS 18-0052
Prime Sponsors: Sen. Jones
Rep. Foote

Date: June 11, 2018
Bill Status: Postponed Indefinitely
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Bill Topic: REQUIRE 100% RENEWABLE ENERGY BY 2035

Summary of Fiscal Impact:

| | |
|---|--|
| <input checked="" type="checkbox"/> State Revenue | <input type="checkbox"/> TABOR Refund |
| <input checked="" type="checkbox"/> State Expenditure | <input type="checkbox"/> Local Government |
| <input type="checkbox"/> State Transfer | <input type="checkbox"/> Statutory Public Entity |

This bill expands the existing renewable energy standard to require all electric utilities derive 100 percent of their electricity generation from renewable sources by 2035. The bill will result in an increase in state revenue and expenditures over the next two fiscal years.

Appropriation Summary: In FY 2018-19, the bill requires an appropriation of \$652,443 to the Department of Regulatory Agencies.

Fiscal Note Status: This fiscal note reflects the introduced bill. This bill was not enacted into law; therefore, the impacts identified in this analysis do not take effect.

**Table 1
State Fiscal Impacts Under SB 18-064**

| | | FY 2018-19 | FY 2019-20 |
|---------------------|------------------------|-------------------|-------------------|
| Revenue | General Fund | \$22,101 | \$23,483 |
| | Cash Funds | \$714,609 | \$759,286 |
| | Total | \$736,711 | \$782,769 |
| Expenditures | Cash Funds | \$652,443 | \$690,888 |
| | Centrally Appropriated | \$62,166 | \$68,398 |
| | Total | \$714,609 | \$759,286 |
| | Total FTE | 5.0 FTE | 5.5 FTE |
| Transfers | Total | - | - |

Summary of Legislation

This bill modifies the state's renewable energy standard (RES) to require that all investor-owned utilities (IOUs), cooperative electric associations (CEAs), and municipally-owned utilities (MOUs) generate 100 percent of their electricity from eligible renewable resources by 2035. The bill also removes recycled energy sources from the types of energy eligible for meeting the RES.

Increases total and distributed generation RES requirements for IOUs. The bill boosts the required RES percentages for IOUs in order to achieve 100 percent renewable generation by 2035, according to the following schedule.

| <u>Calendar years</u> | <u>Proposed</u> |
|-----------------------|-----------------|
| 2020 to 2029 | 30 percent |
| 2030 to 2034 | 70 percent |
| 2035 and beyond | 100 percent |

The bill also requires distributed generation to equal at least 7 percent of retail electricity sales after 2020.

Increases RES requirements for both CEAs and MOUs. Under current law, qualifying CEAs and MOUs are required to generate 20 percent and 10 percent of their electricity, respectively, from renewable resources beginning in 2020. This bill increases the required RES percentages for MOUs beginning in 2020 and for CEAs beginning in 2025 in order to achieve 100 percent renewable generation by 2040, according to the following schedule:

| <u>Calendar years</u> | <u>Proposed</u> |
|--------------------------|-----------------|
| 2020 to 2024 (MOUs only) | 20 percent |
| 2025 to 2029 | 40 percent |
| 2030 to 2034 | 70 percent |
| 2035 and beyond | 100 percent |

Increases RES requirements for MOUs that qualify after 2006. Under current law, MOUs that qualify for the RES after 2006, must generate specified percentages of their retail sales from renewable energy. These percentages increase up to a maximum of 10 percent through the first 13 years of qualification. This bill extends the phase-in period according to the following schedule:

- 20 percent in years 17 through 20;
- 40 percent in years 21 through 24;
- 60 percent in years 25 through 28;
- 80 percent in years 29 through 32; and
- 100 percent in years 33 and beyond.

Declining value of Renewable Energy Credits (RECs). Under current law, qualifying utilities may purchase RECs in order to meet their obligation under the RES. This bill phases out the system of tradeable renewable energy credits so that renewable energy generated after 2035 is not eligible for renewable energy credits.

The bill allows a utility to obtain energy efficiency credits based on any energy efficiency upgrades made for a low-income residential customer. Finally, the bill removes multipliers used for counting the generation of certain types of renewable energy.

Background

Previous legislation. Since the passage of Amendment 37 in the 2004 general election, the General Assembly has passed several pieces of legislation related to clean energy development in Colorado. To provide context, the following describes three bills that have been enacted modifying Section 40-2-124, C.R.S., the statutory section established by Amendment 37.

House Bill 07-1281 expanded the definitions of a "qualifying retail utility" to include all utilities, except MOUs serving less than 40,000 customers. The bill raised the standard for renewable electricity generation for IOUs from 2008 through 2019 and set the standard at 20 percent beginning in 2020. The bill also established a new standard for renewable electricity generation for REAs and MOUs serving over 40,000 customers, requiring increasing renewable generation from 2008 to 2019 and establishing a 10 percent standard beginning in 2020. The bill expanded eligible sources to include recycled energy, and increased the allowable retail rate impact from one to two percent of the total electric bill for each retail customer.

House Bill 10-1001 further raised the standard for renewable electricity generation for IOUs for 2011 through 2019 and set the standard at 30 percent beginning in 2020. The bill also established increasing requirements for distributed generation according to the following schedule; 1 percent for 2011 and 2012; 1.25 percent for 2013 and 2014; 1.75 percent for 2015 and 2016; 2 percent for 2017 through 2019; and 3 percent for 2020 and beyond.

Senate Bill 13-252 raised the standard for renewable electricity generation for CEAs serving over 100,000 customers and for generation and transmission associations providing wholesale electricity to CEAs from 10 to 20 percent beginning in 2020. In addition, the bill raised the allowable retail rate impact for CEAs from 1 to 2 percent.

Electric Resource Planning process. Pursuant to the Colorado Public Utility Commission's (PUC's) Electric Resource Planning Rules, 4 CCR 723-3-3600, *et seq.*, Colorado's two IOUs are required to file an electric resource plan (ERP) with the PUC once every four years. The resource planning process typically involves two phases. The ERP includes development of a load forecast, evaluation of the utility's current resources, determination of need for additional resources, and the utility's proposed plan for acquiring the resources to meet the identified need. The ERP covers a 7-year resource acquisition period and a 25-year planning period, as required by the ERP rules. Currently, the PUC is evaluating 2016 ERPs, which cover an acquisition period to 2023 and a planning period to 2041. The 2020 ERP planning cycle will begin in October 2019.

State Revenue

Fixed Utility Fund. The administrative costs incurred by the PUC are paid from the Fixed Utility Fund (FUF). The FUF receives an annual assessment on the state's regulated utilities. Whenever additional expenses are incurred against the fund, the assessment must be raised to increase revenue to cover these expenses, plus credit 3 percent to the General Fund.

TABOR Refund

The bill increases state revenue subject to TABOR by \$736,711 in FY 2018-19 and \$782,769 in FY 2019-20. State revenue is not currently expected to exceed the TABOR limit in either year and no refund is required. Therefore, the bill is not expected to impact TABOR refunds in these years.

State Expenditures

Department of Regulatory Agencies, Public Utilities Commission (PUC). In FY 2018-19, the PUC will incur additional expenditures of \$714,609 and 5.0 FTE as a result of this bill. In FY 2019-20, the PUC will incur additional expenditures of \$759,286 and 5.5 FTE.

The PUC is currently three years into its 2016 ERP process with the state's two IOUs. Bids for future resources have already been received by the utility, including bids for wind, solar, and gas-fired generation, as well as stand-alone storage and combined proposals of generation and storage. The ERP submitted by both IOUs assumes that the generation mix will include some gas-fired generation. This bill would either totally eliminate the future acquisition of gas-fired generation or, at the very least, significantly shorten the contract terms for gas-fired projects. Under this bill, the PUC will be required to dismiss much of what has already been completed in the 2016 ERP planning process and restart the process under a new paradigm where fossil-fueled generation is prohibited in Colorado after 2035. As a result, much of the work already completed by PUC staff will need to be redone over the next two years. It is estimated that this effort will require the equivalent of two professional engineers (PE-III's) and two rate financial analysts (RFA-V's) over the next two fiscal years. In addition, it is estimated that this effort will require the support of three attorneys general on a half-time basis. These costs are summarized in Table 2, and have been prorated in the first year to accommodate the bill's effective date.

It should be noted that these costs are dependent on the bill's effective date. If the bill were to become effective in October 2019 at the beginning of the next ERP cycle, the additional expenditures would be eliminated. The rules would be changed in the course of normal business, and the utilities would make compliant filings within the 2020 ERP cycle.

**Table 2
Expenditures Under SB 18-064**

| | FY 2018-19 | FY 2019-20 |
|---|-------------------|-------------------|
| Department of Regulatory Agencies | | |
| Personal Services | \$366,095 | \$399,376 |
| Operating Expenses and Capital Outlay Costs | \$22,612 | \$3,800 |
| Legal Services | \$263,736 | \$287,712 |
| Centrally Appropriated Costs* | \$62,166 | \$68,398 |
| FTE – Personal Services | 3.6 FTE | 4.0 FTE |
| FTE – Legal Services | 1.4 FTE | 1.5 FTE |
| Total Cost | \$714,609 | \$759,286 |
| Total FTE | 5.0 FTE | 5.5 FTE |

* Centrally appropriated costs are not included in the bill's appropriation.

Centrally appropriated costs. Pursuant to a Joint Budget Committee policy, certain costs associated with this bill are addressed through the annual budget process and centrally appropriated in the Long Bill or supplemental appropriations bills, rather than in this bill. These costs, which include employee insurance and supplemental employee retirement payments, are estimated to be \$62,166 in FY 2018-19 and \$68,398 in FY 2019-20.

Effective Date

The bill was postponed indefinitely by the Senate Agriculture, Natural Resources, and Energy Committee on February 1, 2018.

Technical Note

In Section 40-2-124 (1)(e), C.R.S. the bill modifies the standard rebate offer to require that the offer "must equal the qualifying utility's existing retail electric rate." The rebate per statute is a one-time capacity payment per watt of installation. The utility's retail electric rate is comprised of a fixed service charge and a variable energy charge based on the customer's consumption, expressed in dollars per kilowatt-hour. If left uncorrected, the requirement cannot be implemented and would require another bill to align these two provisions.

State Appropriations

In FY 2018-19, the bill requires a cash fund appropriation of \$652,443 and an allocation of 5.0 FTE from the Fixed Utility Fund to the Department of Regulatory Agencies.

State and Local Government Contacts

Information Technology Regulatory Agencies