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Revised Fiscal Note

(replaces fiscal note dated March 30, 2021)

Drafting Number: LLS 21-0352
Prime Sponsors: Rep. Bennett, Sen. Hansen

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Bill Status: Senate Trans. & Energy
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Bill Topic: PUC MODERNIZE GAS UTILITY DEMAND-SIDE MGMT STANDARDS

- Summary of Fiscal Impact: State Revenue, State Expenditure, State Transfer, TABOR Refund, Local Government, Statutory Public Entity

This bill updates the methods used to determine cost-effectiveness and other requirements of demand-side management programs implemented by gas utilities. The bill will increase state expenditure beginning in FY 2021-22.

Appropriation Summary: This bill requires an appropriation of \$73,351 to the Department of Labor and Employment. See Technical Note.

Fiscal Note Status: This revised fiscal note reflects the reengrossed bill.

Table 1
State Fiscal Impacts Under HB21-1238

Table with 4 columns: Category, Budget Year FY 2021-22, Out Year FY 2022-23, and values for Revenue, Expenditures, Transfers, and TABOR Refund.

## Summary of Legislation

This bill revises the requirements of gas utility demand-side management (DSM) programs beginning in 2022, including updates to the methods used to determine cost-effectiveness. In considering the cost-effectiveness of DSM programs, the Public Utilities Commission (PUC) is required to consider the avoided costs to ratepayers resulting from the reduced consumption of natural gas. Avoided costs must include carbon dioxide and methane emissions based on the most recent assessment by the federal government on the social cost of carbon and the social cost of methane. In calculating the avoided cost of methane emissions, the PUC is required to account for natural gas leakage during extraction, processing, transportation and delivery by the gas public utility and combustion of natural gas by end-users.

The bill also makes various changes to the current gas utility DSM program requirements, including:

- adding behind-the-meter thermal renewable sources to the definition of DSM programs;
- allowing the PUC to deem innovative technologies with the potential for significant energy saving impact cost-effective;
- establishing minimum expenditures that must be targeted to customers in income-qualified households;
- revising expenditure target requirements; and
- adding savings targets and budget control mechanisms to the approval process for gas DSM programs, aligned with the existing process that applies to electric DSM programs; and
- adding labor standards for work performed under a gas DSM program.

## Background

Demand-side management programs aim to reduce end-use natural gas consumption in a cost effective manner, and are defined in statute as programs that support energy efficiency, conservation, and load management. This bill adds behind-the-meter thermal renewable sources to that definition.

Under current law, a utility's annual expenditure target for DSM programs must be equal to at least 0.5 percent of total revenues from its sales customers in the prior year. This bill revises that requirement by directing the PUC adopt an estimated budget for DSM program that is commensurate with the energy savings targets established by the commission, which must be consistent with achieving the greenhouse gas reduction targets.

Finally, current PUC rules consider avoided greenhouse gas emissions to be a non-energy benefit of gas utility DSM programs. This benefit is incorporated into the cost-effectiveness of a gas utility DSM portfolio by multiplying the initial total resource cost ratio, which excludes consideration of avoided emissions and other societal benefits, by 1.05 to reflect the value of the avoided emissions and other societal benefits. This bill requires gas utilities to use the social cost of carbon and social cost of methane developed by the federal government to account for the non-energy benefits of gas DSM programs.

**State Expenditures**

This bill will increase expenditures in the Department of Labor and Employment by \$88,305 and 0.9 FTE in FY 2021-22 and \$89,628 and 1.0 FTE in FY 2022-23 and ongoing. The bill will minimally increase workload in the Department of Regulatory Agencies and the Department of Public Health and Environment beginning in FY 2021-22. These costs are reflected in Table 2 and discussed below.

**Table 2  
 Expenditures Under HB21-1238**

	FY 2021-22	FY 2022-23
<b>Department of Labor and Employment</b>		
Personal Services	\$65,801	\$71,783
Operating Expenses	\$1,350	\$1,350
Capital Outlay Costs	\$6,200	-
Centrally Appropriated Costs <sup>1</sup>	\$14,954	\$16,495
<b>Total Cost</b>	<b>\$88,305</b>	<b>\$89,628</b>
<b>Total FTE</b>	<b>0.9 FTE</b>	<b>1.0 FTE</b>

<sup>1</sup> Centrally appropriated costs are not included in the bill's appropriation.

**Department of Labor and Employment.** The Department of Labor and Employment requires one full-time staff member to develop and maintain a certified contractor list. This staff person will contact apprenticeship sponsors to obtain a list of contractors and employers affiliated with their registered apprenticeship program. There are an estimated 150 apprenticeship sponsors within the mechanical, plumbing, and electrical occupations, and each sponsor may be affiliated with multiple contractors. This fiscal note assumes that each apprenticeship sponsor will require 12 hours of work to collect the necessarily information to compile the certified contractor list, which will be updated annually. Staff costs have been prorated to reflect the General Fund pay date shift. See the Technical Note below about the provisions of the bill affecting the Department of Labor and Employment.

**Public Utilities Commission.** The bill's specified commencement date of 2022 is consistent with or near the time when gas utilities will be filing their DSM plans with the PUC. As a result, the changes proposed in this bill can be incorporated into the regular filing deadline for gas utility DSM plans. This bill will require modifications to the commission's current rules for gas DSM, but these changes can be incorporated into rules in the ordinary course of business.

**Department of Public Health and Environment.** The bill requires the PUC to collaborate with the Air Quality Control Commission (AQCC) to ensure emissions reductions through gas DMS programs are accounted for in meeting the state's greenhouse gas reduction goals. The AQCC can accomplish this workload within existing staffing resources.

## **Technical Note**

Two other bills, Senate Bill 21-246 and Senate Bill 21-072, also contain the provision in this bill that requires the Department of Labor and Employment to prepare and update a certified contractor list containing the names and contact information of qualified contractors that participate in apprenticeship programs that are registered with the U.S. Department of Labor or by a State Apprenticeship Council. The appropriation related to this provision is identified in the fiscal notes for all three bills, but needs only to be appropriated once.

## **Effective Date**

The bill takes effect 90 days following adjournment of the General Assembly sine die, assuming no referendum petition is filed.

## **State Appropriations**

For FY 2021-22, the bill requires a General Fund appropriation of \$73,351 and 0.9 FTE to the Department of Labor and Employment. See Technical Note.

## **State and Local Government Contacts**

Labor and Employment

Public Health and Environment

Regulatory Agencies