



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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Bill Number:	S. 0110	Introduced on January 8, 2019
Author:	Massey	
Subject:	Public Service Commission	
Requestor:	Senate Judiciary	
RFA Analyst(s):	Gallagher	
Impact Date:	March 25, 2019	Updated for Additional Agency Response

Fiscal Impact Summary

The Public Service Commission (PSC) and Office of Regulatory Staff (ORS) estimate that oversight of a bond issuance and rate imposition will cost between \$7,123-\$2,000,000 for legal consultant fees and \$64,750-\$1,600,000 for financial consultant fees, for a total expenditure range of \$71,873-\$3,600,000 to authorize the issuance of these bonds. PSC will pay an undetermined proportion of these fees. Pursuant to Section 58-3-100, PSC's Other Funds expenses would be offset by assessments to the public utilities subject to the commission's jurisdiction. However, the timing of the impact will depend on when a utility chooses to utilize these provisions. This bill will have no expenditure impact on the Office of Regulatory Staff's (ORS) Other Funds. Based on past practices, ORS will enter into an agreement with the consultants and the utility to have the utility pay any consulting fees directly. The expenditure impact of this bill has been updated, following a response from PSC and ORS.

Explanation of Fiscal Impact

Updated for Additional Agency Response on March 25, 2019
Introduced on January 8, 2019

State Expenditure

This bill allows PSC to authorize a utility to issue bonds through a special purpose entity to offset or reduce certain costs due to a state of emergency declared by the governor or abandonment of a project authorized under Article 4, Chapter 33, Title 58 (Base Load Review Act). In order to use this financing mechanism, a utility must petition PSC for a financing order, and PSC must find that the utility's use of the mechanism will avoid or significantly mitigate rate impacts to customers compared to traditional methods of recovery.

The financing order establishes an obligatory charge to the utility's customers so as to provide a secure stream of revenues to the special purpose entity from which the bonds would be paid. This securitized revenue stream would allow the utility access to low-cost financing to recover certain costs associated with a state of emergency or abandonment of a project, reducing total costs charged to the utility's ratepayers. If PSC authorizes a utility to use securitization and the utility chooses not to, the utility is prohibited from recovering more from ratepayers than it would have recovered using securitization.

The State maintains that it will not:

- Alter the provisions of the section requiring the charges be irrevocable, binding, and nonbypassable;

- Allow any action that would diminish the value of the special charge, or revise the costs for which recovery is authorized;
- Other than as authorized in this bill, alter the special charge until the principle, interest, premium, and financing costs have been paid in full, and any contracts related to the bonds have concluded.

This bill requires PSC to have a hearing to examine the impact of bond securitization on both ratepayers and the utility, with the goal of mitigating rate impacts. During this hearing, ORS is tasked with representing the public interest. In doing so, ORS provides PSC with expert consultant testimony. The financing order issued by PSC must:

- Specify the amount of securitized debt to be financed and recovered from ratepayers;
- Specify the time period over which the securitized debt is to be recovered from ratepayers;
- Provide detailed findings addressing cost-effectiveness and associated rate impacts;
- Require that the special charge be paid by all future ratepayers;
- Include a mechanism for making and approving periodic adjustments to the special charge to correct over and under collection of the special charges or to otherwise ensure the timely payment of securitized debt;
- Specify the special purpose entity that shall be used to pay or secure the bonds;
- Specify the periodic reporting requirements as deemed necessary by the commission, and;
- Include any other conditions that the commission considers appropriate and are authorized by this bill.

Typically, fees for financial and legal consulting services are based on the total amount to be considered for securitization. In addition, several factors may influence fees:

- If the securitization is being implemented for the first time.
- The scope of services to be offered by the financial and legal consultants.
- The procurement process for services.
- If a prudency determination on the underlying securitization amount is required.

Accounting for these factors, PSC and ORS estimate the range for consulting services to be \$7,123-\$2,000,000 for legal consultant fees and \$64,750-\$1,600,000 for financial consultant fees to authorize the issuance of these bonds. These fees are estimated based on experiences in other states regarding similar legislation. The total expenditure range for ORS to consult with experts and PSC to authorize a utility to issue bonds is \$71,873-\$3,600,000. However, the agencies are unable to estimate which costs will be incurred by each agency. Further, the timing of the impact will depend upon when utilities decide to utilize these provisions.

Pursuant to Section 58-3-100, the expenses incurred by PSC would be borne by the public utilities subject to the commission's jurisdiction. Each July 1, the Department of Revenue (DOR) is required to charge and collect each public utility's share of PSC's expenses. Therefore, any increase in expenditure to PSC's Other Funds would be offset by DOR's assessment and

collection of fees. This will result in an increase in Other Funds revenue to offset any expenses incurred by PSC pursuant to this legislation.

This bill specifies that the commission is tasked with setting recoverable costs and allowable financing costs to be securitized. Based on this provision and past practices, ORS will enter into an agreement with the consultants and utility to have the utility pay any consulting fees directly. Therefore, there will be no impact on ORS' Other Funds. The expenditure impact of this bill has been updated, following a response from PSC and ORS.

State Revenue

As stated under State Expenditure, PSC anticipates it will incur a portion of the expenses between \$71,873-\$3,600,000 for each authorization of a bond issuance. Pursuant to Section 58-3-100, the expenses incurred by PSC would be offset by assessments from the public utilities subject to the commission's jurisdiction. This will result in an increase in Other Funds revenue corresponding to the amount of PSC's expenses.

The revenue impact of this bill has been updated, following a response from PSC and ORS.

Local Expenditure

N/A

Local Revenue

N/A

Introduced on January 8, 2019

State Expenditure

This bill allows the Public Service Commission to authorize the issuance of bonds for the purposes of offsetting and reducing incurred costs due to a state of emergency declared by the governor, or abandonment of a project authorized under Article 4, Chapter 33, Title 58 (Base Load Review Act). Furthermore, the bill establishes the requirements and processes for the authorization of these bonds.

The expenditure impact of this bill is pending, contingent upon further analysis and discussion with the Public Service Commission.

State Revenue

N/A

Local Expenditure

N/A

Local Revenue

N/A



Frank A. Rainwater, Executive Director