

# NORTH CAROLINA GENERAL ASSEMBLY

## LEGISLATIVE FISCAL NOTE

**BILL NUMBER:** Senate Bill 1078 (Second Edition)  
Agriculture/Environment/Natural Resources  
Committee Substitute Adopted 4/18/01

**SHORT TITLE:** Improve Air Quality/Electric Utilities

**SPONSOR(S):**

### FISCAL IMPACT

	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>

#### REVENUES

#### EXPENDITURES

State Government (See Note)	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000
Local Government	No Estimate Available. See Assumptions and Methodology.				

**Note:** The expenditures will not actually be the same each year as shown above, but will be determined by the pattern of utility investments, which are not known at this time, and decisions by the Utilities Commission. In the early years the expenditures will be lower, then higher in the middle years, and then decline. The estimate above of \$5 million per year should be considered an average for the period through 2013.

#### POSITIONS:

**PRINCIPAL DEPARTMENT(S) &  
PROGRAM(S) AFFECTED:** State and Local Government

**EFFECTIVE DATE:** When it becomes law.

**BILL SUMMARY:** Senate Bill 1078 would require reductions in the emissions of certain pollutants from large-scale coal-fired generating units owned by investor-owned public utilities. The bill would establish collective emission caps for nitrogen oxides (NOx) and sulfur dioxide, as well as a timetable for meeting these standards. The proposed bill would also:

- Direct the Environmental Management Commission (EMC) to develop and adopt standards and plans to implement programs to achieve the collective reductions in the timeframe established.

- Direct the Utilities Commission to allow each electric utility to recover the full costs of compliance with this bill.
- Direct the State to use its resources to compel other states and entities to make similar reductions, particularly those states whose emissions adversely impact air quality in North Carolina or whose failure to make similar reductions would put the economy of North Carolina at a competitive disadvantage.
- Direct the EMC to evaluate the need for further reductions of NOx and sulfur dioxide (SO<sub>2</sub>), and report its findings to the General Assembly and the Environmental Review Commission annually beginning September 1, 2004.
- Direct the Division of Air Quality to study issues related to the monitoring and control of mercury emissions from coal-fired generating units.
- Direct the Division of Air Quality to study issues related to setting standards for carbon dioxide emissions from coal-fired generating units and other stationary sources of air pollution.

(Source: Bill Analysis, Research Division)

#### **ASSUMPTIONS AND METHODOLOGY:**

Summary: Based on preliminary information from Carolina Power and Light (CP&L) and Duke Power, it appears that the fiscal impact on the State as a result of higher electricity costs would be an average of approximately \$5 million per year for the period from about 2002 through 2013, with some years higher than that and others lower. The start date and actual pattern of expenditures cannot be determined at this time. The total impact on local government is not known, but examples of approximate impacts are given below for Charlotte, Durham, and Winston-Salem and their associated counties and school districts.

The impact on State and local government results from Section 3 of the bill, which creates a mechanism for recovery of costs incurred by CP&L and Duke Power, the affected utilities, in implementation of the bill. The costs are to be recovered from customers, and as major utility customers, State and local government would be impacted. Information on which to estimate the size and timing of the fiscal impact is preliminary. According to Duke and CP&L the likely impact would be approximately .3 cents per kilowatt-hour. Large government customers pay approximately 6 cents per kilowatt-hour (depending on which utility serves them and their electricity usage patterns). An additional .3 cents on a current rate of 6 cents is a 5 percent increase, and that is the impact assumed here. The actual amount will be determined by the Utilities Commission on the basis of criteria established in Section 3 of the bill.

#### Fiscal Impact on the State

According to the Office of State Controller, the State paid approximately \$108 million for electricity in FY1999-2000. Not all of this would have been paid to Duke and CP&L, however. State facilities located in Fayetteville or High Point or other cities with municipal power systems would presumably pay those cities and would not be impacted by the bill. The same would apply for state facilities served by Electric Membership Corporations. The total of these deductions is not known, but it is assumed here that the State is paying Duke

and CP&L, in total, about \$100 million per year and that this would increase by about 5 percent, or \$5 million per year as a result of the bill.

Fiscal Impact on Local Governments

Information on the total impact on local governments is not available. As an example, however, Duke Power was able to provide data on the electricity bills of several large local government entities in Duke’s service territory, from which the potential fiscal impact can be estimated, as shown below:

Yearly Projected Fiscal Impact on Large Duke Local Government Customers

Customer	Expenditures on Electricity (Calendar Year 2000)	Yearly Fiscal Impact (5% of expenditures)
City of Charlotte	\$15,588,913	\$779,446
Mecklenburg County	\$3,284,648	\$164,232
Charlotte-Mecklenburg Schools	\$9,897,042	\$494,852
Winston-Salem	\$7,112,863	\$355,643
Forsyth County	\$1,831,874	\$91,594
W-S/Forsyth Schools	\$3,181,245	\$159,062
Durham City	\$3,919,385	\$195,969
Durham County	\$1,079,743	\$53,987
Durham Public Schools	\$3,200,649	\$160,032

Timing of Fiscal Impact

While it is assumed above that the total fiscal impact would be the equivalent of about a 5 percent increase in utility bills, the actual timing of the payments cannot be determined at this time. According to the utilities, the pattern of their investments is likely to be low investments through an initial planning and design period, then a period of higher investments during construction or installation, finally tapering off toward the end of the process. As Section 3 is written, customer payments would generally follow this pattern and could begin as early as calendar year 2002. The actual pattern of cost recovery will depend on the construction process and decisions of the Utilities Commission.

**FISCAL RESEARCH DIVISION 733-4910**

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