

THE STATE OF NEW HAMPSHIRE

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PUBLIC UTILITIES COMMISSION

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October 27, 2008

Mr. Michael L. Buckley
Office of Legislative Budget Assistant
Room 102 State House
Concord, New Hampshire 03301

Re: REQUEST FOR A FISCAL IMPACT STATEMENT
Puc 2600 – Greenhouse Gas Emissions Reduction Fund – Interim Rules

Dear Mr. Buckley:

Attached you will find the Request for a Fiscal Impact Statement for Chapter Puc 2600 rules titled, "Greenhouse Gas Emissions Reduction Fund." A copy of the Commission-approved Initial Proposal for Puc 2600 interim rules, the Interim Rulemaking Notice Form, and the Interim Rule Cover Sheet were previously submitted to your office on Friday, October 24, 2008.

When you have completed your Fiscal Impact Statement, please notify the Commission. If you have any questions or comments, please contact me.

Thank you for your attention to this matter.

Sincerely,

A handwritten signature in cursive script, reading "Jennifer Ducharme".

Jennifer Ducharme
Legal Assistant

Enclosures

APPENDIX II-B

OFFICE OF LEGISLATIVE BUDGET ASSISTANT
REQUEST FOR FISCAL IMPACT STATEMENT (FIS)

FIS Number _____ Rule Number Puc 2600

1. Agency Name & Address:

**Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, NH 03301-7319**

2. RSA Authority: **RSA 125-O:8, II and
RSA 125-O:23**

3. Federal Authority: _____

4. Type of Action:

Adoption X

Amendment _____

Repeal _____

Readoption _____

Readoption w/amendment _____

5. Short Title: **Puc 2600 - Greenhouse Gas Emissions Reduction Fund**

6. Contact Person:

Name: **F. Anne Ross, Esq.**

Title: **General Counsel**

Address: **21 South Fruit Street, Suite 10
Concord, NH 03301**

Phone #: **603-271-6005**

Fax #: **603-271-3878**

Remember:

- (a) A copy of the proposed rule or an annotated copy of the amended rule must accompany this form. The annotated copy shall use [brackets] to indicate deleted material, and underlining for added material, or any other annotation style allowed in Section 5.4 in Chapter 4 of the Drafting and Procedure Manual for Administrative Rules.
- (b) If calculations are required in the preparation of this request, attach a worksheet showing the methodology.
- (c) This form may be replicated to expedite preparation.
- (d) A transmittal memo shall accompany a request for a fiscal impact statement, noting the number of requests being sent and short titles.
- (e) Please allow 10 working days from day of receipt for the Office of Legislative Budget Assistant to complete the fiscal impact statement. Additional information about this form is in Section 2.3 in Chapter 3 of the Drafting and Procedure Manual for Administrative Rules.

REQUEST FOR FISCAL IMPACT STATEMENT (FIS) - Page 2

(f) Please provide the following information and attach additional sheets if necessary:

- (1) Summarize the rule. **Puc 2600 provides for the administration of the Greenhouse Gas Emissions Reduction Fund as mandated in RSA 125-O:8, II. This law authorizes the department of environmental services to administer a “cap and trade” program which includes an auction of SO₂ allowances. The PUC is required to adopt rules regarding the use of the auction proceeds and the administration of the fund. These funds will be used to support energy efficiency, conservation and demand response programs to reduce greenhouse gas emissions within the State of New Hampshire. Additionally, the funds will assist low income and other residential electric customers in New Hampshire with reduction of energy use, low income assistance programs and rebate programs.**

- (2) Is the cost associated with this rule mandated by the rule or by state statute? If the cost is mandated by statute, then the rule itself may not have a cost or benefit associated with it. Please state either the statute or chapter law that is instigating this rule.

The cost is mandated by RSA 125-O:8, II, and :23.

- (3) Compare the cost of the proposed rule with the cost of the existing rule, if there is an existing rule.

There is no existng rule.

- (4) Describe the costs and benefits to the state general fund which would result from this rule.

The cost of these rules are a direct result of the statute. The rules do not impose any costs or benefits beyond those imposed by the statute. For a detailed discussion of the costs and benefits please refer to the fiscal impact statement prepared in connection with the statute on May 16, 2008, a copy of which is attached for reference.

- (5) Explain and cite the federal mandate for the proposed rule, if there is such a mandate. How would the mandate affect state funds?

There is no federal mandate for the proposed rule.

- (6) Describe the cost and benefits to any state special fund which would result.

The statute creates the Greenhouse Gas Emissions Reduction Fund which is administered by the New Hampshire Public Utilities Commission. These rules set out the details of the administration by the Commission. A more detailed discussion of the fund is included in the fiscal impact statement for the legislation attached.

- (7) Describe the costs and benefits to the political subdivisions of the state.

See fiscal impact statement for the legislation attached.

- (8) Describe the costs and benefits to the citizens of the state.

See fiscal impact statement for the legislation attached.

- (9) Describe the costs and benefits to any independently owned business, including a description of the specific reporting and recordkeeping requirements upon those employing fewer than 10 employees.

Independently owned businesses would have not any cost or administrative impact other than the costs and benefits experienced by all electric ratepayers described in the fiscal impact statement attached.

**STATE OF NEW HAMPSHIRE
OFFICE OF LEGISLATIVE BUDGET ASSISTANT
FISCAL NOTE WORKSHEET**

Date Sent to Agency: May 16, 2008

LSR #: 08-2166.0

Agency: PUC

Bill #: HB 1434 as amended #2008-1839s

Due to LBAO: ASAP

Amendment #(s): 2008-1839s

Correction to prior response? (Y/N): N

State Fund(s) Affected:

General: _____

Federal: _____

Other: Greenhouse Gas
Emissions Reduction
Fund

		FIRST BIENNIUM		SECOND BIENNIUM	
	FY 2008	FY 2009*	FY 2010*	FY 2011*	FY 2012*
State Revenue**	0	\$5.9 million to \$17.9 million	\$11.9 million to \$41.7 million	\$11.9 million to \$50.6 million	\$19.8 million to \$58.0 million
State Expenditure***	0	\$6.2 million to \$18.6 million	\$12.4 million to \$43.3 million	\$12.4 million to \$52.6 million	\$20.3 million to \$59.7 million
Net State Impact***	0	\$239,469 to \$718,406	\$478,939 to \$1.7 million	\$478,941 to \$2.0 million	\$838,381 to \$2.4 million

County Revenue	0	0	0	0	0
County Expenditure	0	Included in above	Included in above	Included in above	Included in above
Net County Impact	0	Included in above	Included in above	Included in above	Included in above

Local Revenue	0	0	0	0	0
Local Expenditure	0	Included in above	Included in above	Included in above	Included in above
Net Local Impact	0	Included in above	Included in above	Included in above	Included in above

*Figures for FY 2009 will be half of CY 2009 and costs for FY 2010 will be half of CY 2009 plus half of CY 2010, etc. **State Revenue represents the total amount of allowance revenue paid into the Greenhouse Gas Emissions Reduction Fund. ***State Expenditures and Net State Impact includes all estimated expenditures by state, county and local governments but does not assume any potential costs savings from increased energy efficiency investments. The overall net impact of expenditures on energy efficiency and demand response programs is expected to be positive and off-set some or all of the costs over time.

- NOTE: (1) List only the amount of change in the appropriate column.
 (2) Place all negative numbers in parenthesis.
 (3) You may replicate this worksheet.
 (4) Refer to Guidelines for Fiscal Note Worksheets for further information.

- (A) **ASSUMPTIONS:** Explain how estimate was derived. Describe costs that can be absorbed without additional funding. If no estimate can be prepared, **explain why in detail.** If no fiscal impact, **explain why in detail.**

As part of the regional greenhouse gas initiative (RGGI), HB 1434 establishes a carbon dioxide allowance cap and trade program for New Hampshire. This bill requires owners of fossil fuel burning power plants, such as coal and natural gas burning facilities, to purchase carbon dioxide allowances equivalent to their emissions by March 1 following the end of each three-year compliance period. The first compliance period begins on January 1, 2009 and ends on December 31, 2011, unless a stage-two trigger event extends the first compliance period to December 31, 2012. This analysis assumes that power plants will purchase one third of the three-year total each year and annual emissions will be equal to the state allowance budget each year. This analysis calculates total ratepayer costs, but does not reflect potential savings from investment of revenue in increased energy efficiency. These costs include the costs to state, county and local government customers, who comprise approximately six percent of the total ratepayer costs.

The statewide annual budget for allowances is 8,620,460 tons during the years 2009 through 2014. Beginning January 1, 2015 and ending December 31, 2018, the budget declines by 215,512 tons per year. From this annual budget, the Department of Environmental Services (DES) is required to retire one percent of the allowances for voluntary purchases of renewable energy certificates. DES is also required to reserve one percent for use during an Operating Procedure 4 capacity deficiency alert established by the Independent System Operator of New England (ISO-NE). DES shall also grant budget allowances to Public Service Company of New Hampshire (PSNH) pursuant to RSA 125-O:24 VI equal to 2.5 million allowances per year in 2009 through 2011 and 1.5 million allowances in any one year thereafter. For purposes of this analysis, it is assumed that the 1.5 million allowances will be granted to PSNH in 2012. These deductions lead to an adjusted allowance budget of 5.95 million tons for the years 2009 through 2011 and 6.95 million tons in 2012. These numbers are derived from calculations by DES and reflect a recent RGGI Agency Heads decision to not sell allowances for future years more than a partial year in advance of their vintage.

The total available allowances will be auctioned through the RGGI allowance market. This analysis assumes that the market price for future year allowances is equal to the market price for current year allowances. The economic analysis uses a range of market prices that are then multiplied by the total available allowances per year to determine the total annual revenues paid into the greenhouse gas emissions reduction fund. The minimum market price per allowance in this range is from an economic analysis prepared by Dr. Ross Gittel and Matt Magnusson of the Whittemore School of Business and Economics at the University of New Hampshire, which is based on projections by the University of Maryland, ICF Consulting and Synapse Energy Economics, Inc. The minimum price is assumed to be \$2.00 per allowance in 2009 through 2011 and \$4.00 per allowance in 2012. Multiplying the low range allowance prices by the total available allowances yields minimum allowance revenue of approximately \$11.9 million in 2009, 2010 and 2011 and \$27.8 million in 2012.

The maximum market price per allowance is based on the threshold price established by this bill, above which revenue will be rebated to ratepayers. If the market price exceeds the threshold price of \$6 per allowance in 2009, \$8 per allowance in 2010, \$9 per allowance in 2011 and 2012, and \$12 per allowance in 2013 and 2014, then the difference between the threshold price and the market price is to be directly rebated to customers. Any amounts that

may be rebated are not shown as revenues or expenses in this analysis. Multiplying the high range allowance prices by the total available allowances yields maximum allowance revenue of approximately \$35.7 million in 2009, \$47.6 million in 2010, \$53.55 million in 2011 and \$62.55 million in 2012.

The revenue generated by allowances will be used to fund the Greenhouse Gas Emissions Reduction Fund from which will be paid PUC administrative costs and New Hampshire's share of the costs associated with participating in the RGGI allowance market and the annual cost of the RGGI regional organization which is estimated to be approximately \$150,000 in 2009 and \$100,000 per year thereafter. The PUC is projected to need to hire two full-time Utility Analyst III positions with a labor grade 28 at step V to manage the greenhouse gas emissions reduction fund pursuant to RSA 125-O:23 and report to the legislature on an annual basis pursuant to RSA 125-O:21, VI. The salary and benefit costs of two full-time utility analysts equal approximately \$179,300 in 2009. Applying a 3.5 percent labor escalation factor and a step increase in 2011 yields a cost of \$185,600 in 2010, \$209,300 in 2011 and \$216,600 in 2012. This analysis does not assume any additional administrative costs for the Department of Environmental Services. The balance of revenue in the Fund is assumed to be expended in the same year as received to support energy efficiency, conservation, and demand response programs to reduce greenhouse gas emissions generated within New Hampshire.

According to the UNH Study, the total gross costs to ratepayers if New Hampshire joins RGGI, assuming the minimum allowance prices described above, less the value of allowances granted to PSNH without charge by this bill as amended by the House, are approximately \$14.8 million in 2009, \$14.9 million in 2010, \$15.2 million in 2011 and \$34.9 million in 2012. The UNH Study also calculated the costs to New Hampshire of RGGI if New Hampshire does not join RGGI. Those RGGI compliance costs arising in other states will be reflected in regional wholesale prices paid by New Hampshire utilities and are estimated at approximately \$6.8 million in 2009, \$7.0 million in 2010, \$7.2 million in 2011 and \$14.9 million in 2012. The analysis adjusts the net effects to state, county and local government by the UNH study estimates of what the costs would have been without New Hampshire's participation in RGGI at both the minimum and maximum allowance price assumptions, without assuming any cost savings from increased investments in energy efficiency, conservation, and demand response.

The gross compliance cost to NH ratepayers of NH participation in RGGI as authorized by this bill are divided by the assumed total kilowatt-hour (kWh) sales to all ratepayers to estimate the gross cost per kWh, before assuming any savings from increased energy efficiency. For purposes of this analysis, electricity sales that are supplied to state, county and local government entities are assumed to be 6 percent of total energy sold to retail ratepayers based on estimates provided by the utilities. Sufficient information was not available to break out the portion of government electricity sales between state, county and local levels. The state, county and local government expenditure is calculated by adding the expenditure of 100% of revenue to the Greenhouse Gas Emissions Reduction Fund and state, county and local government's share of the total annual gross ratepayer costs before assuming any savings from increased energy efficiency. The net state impact is then derived by subtracting this gross state, county and local expenditure from the total revenues paid into the fund.

- (B) **METHOD:** Show calculations used to determine fiscal impact. Calculations must agree with and explain totals on first page.

Calendar Year 2009 (\$ in nominal terms)	Minimum	Maximum
1.) Total Available Allowances (in tons)	5,950,000	5,950,000
2.) Range of allowance market price (\$ per ton)	\$2.00	\$6.00
3.) Range of Total Allowance Revenue (line 1 multiplied by line 2)	\$11,900,000	\$35,700,000
4.) Expenditure of Revenue on energy efficiency and PUC and RGGI Administrative Costs	\$11,900,000	\$35,700,000
5.) Gross Ratepayer Compliance Costs from this bill	\$7,982,287	\$23,946,861
6.) New Hampshire annual kilowatt-hour (kWh) sales	12,265,000,000	12,265,000,000
7.) Average cost per kilowatt-hour to be included in customers' bills (divide line 5 by line 6)	\$0.000651	\$0.001952
8.) NH's annual kWh sales to state, counties, localities	735,900,000	735,900,000
9.) Estimated gross cost of CO2 emissions reduction requirement to state, counties, localities in calendar year 2009 (multiply line 7 by line 8)	\$478,937	\$1,436,812
10.) Total Increased State, County & Local government Expenditures (line 4 plus line 9)	\$12,378,937	\$37,136,812
11) Divide by 2 for ½ of FY 2009 and FY 2010 Expense	\$6,189,469	\$18,568,406

The kWhs supplied to state, county and local government entities is derived by multiplying the total kWh sales to utility retail customers from the UNH Study that are based on the *ISO New England 2007 CELT Report*.

Calendar Year 2010 (\$ in nominal terms)	Minimum	Maximum
1.) Total Available Allowances (in tons)	5,950,000	5,950,000
2.) Range of allowance market price (\$ per ton)	\$2.00	\$8.00
3.) Range of Total Allowance Revenue (line 1 multiplied by line 2)	\$11,900,000	\$47,600,000
4.) Expenditure of Revenue on energy efficiency and PUC and RGGI Administrative Costs	\$11,900,000	\$47,600,000
5.) Gross Ratepayer Compliance Costs from this bill	\$7,982,348	\$31,929,392
6.) New Hampshire annual kilowatt-hour (kWh) sales	12,430,000,000	12,430,000,000
7.) Average cost per kilowatt-hour to be included in customers' bills (divide line 5 by line 6)	\$0.000642	\$0.002569
8.) NH's annual kWh sales to state, counties, localities	745,800,000	745,800,000
9.) Estimated gross cost of CO2 emissions reduction requirement to state, counties, localities in calendar year 2009 (multiply line 7 by line 8)	\$478,941	\$1,915,764
10.) Total Increased State, County & Local government Expenditures (line 4 plus line 9)	\$12,378,941	\$49,515,764
11) Divide by 2 for ½ of FY 2010 and FY 2011 Expense	\$6,189,470	\$24,757,882

Calendar Year 2011 (\$ in nominal terms)	Minimum	Maximum
1.) Total Available Allowances (in tons)	5,950,000	5,950,000
2.) Range of allowance market price (\$ per ton)	\$2.00	\$9.00
3.) Range of Total Allowance Revenue (line 1 multiplied by line 2)	\$11,900,000	\$53,550,000
4.) Expenditure of Revenue on energy efficiency and PUC and RGGI Administrative Costs	\$11,900,000	\$53,550,000
5.) Gross Ratepayer Compliance Costs from this bill	\$7,982,348	\$35,920,566
6.) New Hampshire annual kilowatt-hour (kWh) sales	12,660,000,000	12,660,000,000
7.) Average cost per kilowatt-hour to be included in customers' bills (divide line 5 by line 6)	\$0.000631	\$0.002837
8.) NH's annual kWh sales to state, counties, localities	759,600,000	759,600,000
9.) Estimated gross cost of CO2 emissions reduction requirement to state, counties, localities in calendar year 2009 (multiply line 7 by line 8)	\$478,941	\$2,155,234
10.) Total Increased State, County & Local government Expenditures (line 4 plus line 9)	\$12,378,941	\$55,705,234
11) Divide by 2 for ½ of FY 2011 and FY 2012 Expense	\$6,189,470	\$27,852,617

Calendar Year 2012 (\$ in nominal terms)	Minimum	Maximum
1.) Total Available Allowances (in tons)	6,950,000	6,950,000
2.) Range of allowance market price (\$ per ton)	\$4.00	\$9.00
3.) Range of Total Allowance Revenue (line 1 multiplied by line 2)	\$27,800,000	\$62,550,000
4.) Expenditure of Revenue on energy efficiency and PUC and RGGI Administrative Costs	\$27,800,000	\$62,550,000
5.) Gross Ratepayer Compliance Costs from this bill	\$19,963,695	\$44,918,314
6.) New Hampshire annual kilowatt-hour (kWh) sales	12,890,000,000	12,890,000,000
7.) Average cost per kilowatt-hour to be included in customers' bills (divide line 5 by line 6)	\$0.001549	\$0.003485
8.) NH's annual kWh sales to state, counties, localities	773,400,000	773,400,000
9.) Estimated gross cost of CO2 emissions reduction requirement to state, counties, localities in calendar year 2009 (multiply line 7 by line 8)	\$1,197,822	\$2,695,099
10.) Total Increased State, County & Local government Expenditures (line 4 plus line 9)	\$28,997,822	\$65,245,099
11) Divide by 2 for ½ of FY 2012	\$14,498,911	\$32,622,549

(C) **ESTIMATED FISCAL IMPACT (from A and B): Estimated Fiscal Impact must agree with the totals on first page.**

Minimum and Maximum Range of Allowance Revenues by Fiscal Year (from line 3)

	2009	2010	2011	2012
Minimum	\$5,950,000	\$11,900,000	\$11,900,000	\$19,850,000
Maximum	\$17,850,000	\$41,650,000	\$50,575,000	\$58,050,000

Minimum and Maximum Total Expenditures by Fiscal Year (from line 10)

	2009	2010	2011	2012
Minimum	\$6,189,469	\$12,378,939	\$12,378,941	\$20,688,381
Maximum	\$18,568,406	\$43,326,288	\$52,610,499	\$60,475,166

Minimum and Maximum Overall Net Impact to State, County and Local Government by Fiscal Year (from line 10 minus line 3)

	2009	2010	2011	2012
Minimum	\$239,469	\$478,939	\$478,941	\$838,381
Maximum	\$718,406	\$1,676,288	\$2,035,499	\$2,425,166

It was assumed that the costs for FY 2009 will be half of CY 2009 and that costs for FY 2010 will be half of CY 2009 plus half of CY 2010, etc.

(D) **ADDITIONAL COUNTY, LOCAL OR LONG-RANGE EFFECTS:**

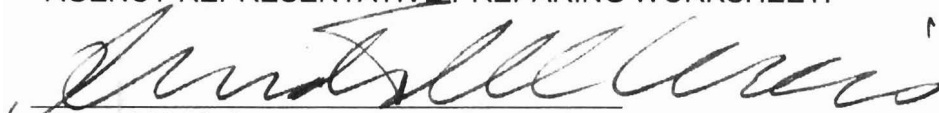
This bill caps carbon dioxide emissions until calendar year 2018. Therefore, the costs, revenues, and increased investment in energy efficiency associated with this proposed bill can be expected to extend beyond 2012 unless federal cap and trade legislation pre-empts it. Many energy efficiency, conservation and demand response measures, such as those installed under current utility sponsored programs, are expected life to produce savings for longer than 10 years. This proposed bill does not provide a customer rebate if the market price exceeds a threshold price after 2015.

This bill uses the revenue earned from the auction of carbon dioxide allowances to establish a greenhouse gas emissions reduction fund. The monies in this fund will be applied first to the administrative costs associated with this bill, including New Hampshire's share of the costs of the RGGI regional organization and new employee positions approved by the Fiscal Committee. The remainder of these funds will be used to support energy efficiency, conservation and demand response programs. In addition, at least 5 percent of the monies will be used to reduce the energy use of low-income residential customers. Due to the bill's lack of specificity in regard to the use of funds for energy efficiency, conservation, demand response and low-income programs and the lag in the use of funds, the exact value of benefits to New Hampshire ratepayers and ultimately state, county and local entities resulting from these types of programs is indeterminate at this time.

(E) **TECHNICAL OR MECHANICAL DEFECTS:** Note any conflicts with existing law. Do not comment on the merits of the legislation.

(F) **OTHER COMMENTS:** Include tax variables, federal mandates, etc.

AGENCY REPRESENTATIVE PREPARING WORKSHEET:


Donald M. Kreis

General Counsel, PUC 271-6006

Title, Agency and Phone Number

May 16, 2008

Date