

BILL ANALYSIS

H.B. 1942
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Regulated Industries
Committee Report (Unamended)

BACKGROUND AND PURPOSE

Under their original jurisdiction, municipalities and the Railroad Commission of Texas regulate the rates of local distribution companies and pipelines, respectively. With continuing growth in Texas and recent emphasis on replacing facilities to enhance safety, utilities face significant challenges in obtaining the capital necessary for new investments. Under present law, this can only occur through a full rate case. This bill would permit the utility to begin recovery on new investments in the year following completion of construction and provides monitoring mechanisms that would prevent utilities from earning more than allowed and would provide for periodic rate reviews.

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

SECTION 1: Adds Subchapter G, Chapter 104, Utilities Code, by adding Section 104.301, as follows:
Sec. 104.301. COST RECOVERY AND RATE ADJUSTMENT FOR NEW INVESTMENT.

(a) Provides that a gas utility may file a tariff with the appropriate regulatory authority for an adjustment to the utility's monthly customer charge to recover the cost of the invested capital placed in to service. Provides in other provisions of this subchapter additional regulatory oversight through filing of Annual Earnings monitoring Report and provides for five-year time frame in which the utility must file a rate case.

(b) Authorizes a gas utility to recover its invested capital during a calendar year based on the difference between the value of the invested capital in one year and the value of the invested capital in the year preceding that calendar year. The calculation of invested capital is equal to the original cost of the investment less the related accumulated depreciation.

(c) Provides that the utility can only recover through the tariff, the return on investment, depreciation expense, ad valorem taxes, revenue related taxes and the incremental federal income taxes related to the difference in value of the net invested capital determined in section (b). The factors used in calculations of this subsection must be the same as the factors used in the gas utility's latest effective rate case in which rates were approved by the appropriate regulatory authority.

(d) Requires the utility that implements a tariff under this provision to file with the proper regulatory authority an annual report describing the investment projects placed into service during the preceding calendar year including any investment abandoned or retired during the reporting year.

(e) Requires the utility that implements a tariff under this provision to file with the regulatory authority an annual earnings monitoring report demonstrating the utility's' earnings during the preceding calendar year. Requires the utility to adjust the earnings monitoring report to reflect the allocation among the classes of customers used in the most recent rate cases approved by the regulatory authority.

(f) Provides an upper limit of 75 basis points above the return on investment established in the most recent

rate case approved by the regulatory authority. If the utility exceeds the earning limit during the reporting year, the utility will be required to file a statement with the earnings monitoring report stating the reasons why the utility does not need to reduce rates.

(g) Requires the utility that utilizes a tariff under this section to file a rate case before the fifth anniversary of the date on which the tariff takes effect. The utility shall file the rate case with the proper authority no later than the 180th day after the anniversary date of the original implementation of the tariff.

EFFECTIVE DATE

September 1, 2003.