LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 78TH LEGISLATIVE REGULAR SESSION

April 11, 2003

TO: Honorable Phil King, Chair, House Committee on Regulated Industries

FROM: John Keel, Director, Legislative Budget Board

IN RE: **HB1942** by West, George "Buddy" (relating to incentives to encourage gas utilities to invest in new infrastructure.), **Committee Report 1st House, Substituted**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1942, Committee Report 1st House, Substituted: a negative impact of ($454,424) through the biennium ending August 31, 2005.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2004	($231,337)
2005	($223,087)
2006	($223,087)
2007	($223,087)
2008	($223,087)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *GENERAL REVENUE FUND* 1	Change in Number of State Employees from FY 2003
2004	($231,337)	3.0
2005	($223,087)	3.0
2006	($223,087)	3.0
2007	($223,087)	3.0
2008	($223,087)	3.0

Fiscal Analysis

The bill would allow gas utilities to file tariffs reflecting an adjustment to its base rates to recover the cost of new investment made in the preceding calendar year to provide gas utility service. Only utilities that have filed a rate case within the preceding two years would be allowed to implement this rate adjustment and that the factors used to calculate the rate adjustment be the same as the factors reflected in the most recent rate order issued by, or settlement agreement approved by, the regulatory authority. The bill would require that the regulatory authority (municipality or Railroad Commission) be given at least 60 days notice of the increase prior to implementation of the rate adjustment. The regulatory authority would also review annual reports of each utility to justify that the rates are reasonable.

A utility implemening a rate adjustment as provided by the bill would be required to file an annual report describing the investment projects completed and placed in service during the preceding calendar year and the investments retired or abandoned during the preceding calendar year. The utility also would be required to file with the regulatory authority an annual earnings monitoring report demonstrating the utility's earnings during the preceding calendar year. If the report shows earnings have exceeded a prescribed level, the gas utility would be required to file a statement with that report stating the reasons why it believes the rates are not unreasonable.

Methodology

This estimate assumes that four of the five largest gas utilities in Texas would take advantage of the provisions in this legislation to implement rate adjustments to recover system investments. An additional 20 to 25 investor owned utilities also would be expected to implement rate adjustments. It is expected that none of these utilities has filed rate cases in the past two years, so all would need to file rate cases, thereby resulting in additional workload for the Railroad Commission.

Commission staff would ned to review filings within 60 days. Commission staff would also need to account for, monitor and analyze each utility's compliance with reporting requirements of the bill to ensure that utilities are not over-earning as a result of the annual rate adjustments. It is expected that the Commission's overall level of rate case review would increase as a result of the bill's passage, resulting in the need for three additional FTEs and $223,087 each fiscal year.

Technology

Capital costs associated with computers for the three additional FTEs are estimated to be $8,250 in fiscal year 2004.

Local Government Impact

Municipalities regulating gas utilties also could experience an increased workload as a result of the bill's passage. Due to the number of rate cases such entities could be expected to examine, the fiscal implications to local governments are not expected to be significant.

Source Agencies: 455 Railroad Commission

LBB Staff: JK, JRO, MS, TL