

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 79TH LEGISLATIVE REGULAR SESSION

April 11, 2005

TO: Honorable Kenneth Armbrister, Chair, Senate Committee on Natural Resources

FROM: John S. O'Brien, Deputy Director, Legislative Budget Board

IN RE: SB1169 by Armbrister (Relating to the authority and financing of the Railroad Commission of Texas in relation to gas utilities.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for SB1169, As Introduced: a positive impact of \$15,336,055 through the biennium ending August 31, 2007.

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
2006	\$8,004,685
2007	\$7,331,370
2008	\$7,331,370
2009	\$7,331,370
2010	\$7,331,370

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain/ (Loss) from <i>GENERAL REVENUE FUND 1</i>	Probable Savings/(Cost) from <i>GENERAL REVENUE FUND 1</i>	Change in Number of State Employees from FY 2005
2006	\$8,880,000	(\$875,315)	11.5
2007	\$8,880,000	(\$1,548,630)	23.0
2008	\$8,880,000	(\$1,548,630)	23.0
2009	\$8,880,000	(\$1,548,630)	23.0
2010	\$8,880,000	(\$1,548,630)	23.0

Fiscal Analysis

The bill would expand the Railroad Commission's jurisdiction over rates and services of a gas utility to areas inside municipalities with established "purchased gas adjustments" clauses as defined by the bill.

The bill would establish a gas fee of \$0.20 per customer bill from certain investor-owned gas utilities and natural gas master meter operator.

The bill would authorize the recovery of the "cost of purchased gas," as defined by the bill, by gas utilities. The Railroad Commission would exclusive jurisdiction over "cost of purchased gas" by

utilities. Each gas utility requesting or maintaining a purchased gas adjustment clause in the utility's rate schedule would be required to file an annual gas purchase plan with the Railroad Commission. If it accepted a plan, the Railroad Commission would be required to establish a purchased gas adjustment clause, establish the level of the cost of purchased gas, and use that level as the basis for evaluating subsequent changes to the level of the cost of purchased gas. The commission also would be required to determine the reasonableness and necessity of a gas distribution utility's cost of purchased gas in accordance with the utility's annual gas purchase plan.

The bill would exempt state agencies from being charged a gross receipts assessment, regulatory assessment, or similar expenses otherwise recovered from gas utility customers.

The bill would provide that annual gas purchase plans be submitted to the Railroad Commission on or after July 1, 2006.

Methodology

The Railroad Commission estimates that the bill's expansion of the commission's original jurisdiction over rates and services would increase the number of customers under its original jurisdiction from 400,000 to 3.7 million. This is expected to significantly increase the number of rate cases and utility audits the commission handles. The Commission expects that utility audits would increase from 140 to 158 per year, while rate cases handled by the Gas Services Market Oversight section would increase from 20 to 40 per year, and rate cases handled by the General Counsel's Gas Services section would increase from less than 10 per year to 40 per year.

The agency also would experience additional workload resulting from the bill's requirement that it evaluate each utility's annual gas purchase plan. This estimate assumes the Railroad Commission would evaluate 18 annual gas purchase plans from gas distribution companies. Based on current staffing levels, the bill's passage would result in an overall need for an additional 23 FTEs at a cost of over \$1.5 million per year.

All costs are assumed to be paid out of the General Revenue Fund. This estimate assumes that costs and the number of FTEs required in fiscal year 2006 would only be equal to one-half the costs in later years, since gas purchase plans would not be received until July 1, 2006. In addition, one-time startup costs of \$101,000 are included in fiscal year 2006.

This estimate assumes that the \$0.20 regulatory fee established by the bill would be assessed 12 times per year on 3.7 million customers, resulting in annual revenues of \$8.9 million being deposited to the General Revenue Fund.

Technology

Additional personal computers would be needed for each of the new FTEs at a cost of approximately \$46,000 in fiscal year 2006.

Local Government Impact

Municipalities could see some small savings from no longer having to regulate gas utility rates and services within their municipal boundaries. Municipalities would still be able to claim reimbursement from gas utilities for the reasonable costs of participating in the Commission-run ratemaking proceedings. Additionally, municipalities that obtain gas service from investor-owned utilities may have to pay a surcharge to the utility.

Source Agencies: 455 Railroad Commission

LBB Staff: JOB, WK, ZS, TL, KJG