

## **BILL ANALYSIS**

H.B. 1749  
By: Morrison  
Regulated Industries  
Committee Report (Unamended)

### **BACKGROUND AND PURPOSE**

Currently, Local Government Code Section 304.001 allows political subdivisions to join together to create a political subdivision corporation for the purpose of purchasing electric energy. Several such corporations have been formed and have achieved benefits for members, who are predominantly cities. While savings have been achieved, savings would be greater if these non-profit corporations could directly enter into long-term contracts with owners of specific generation assets at prices near the cost of production, rather than at short-term market prices that track the price volatility of natural gas futures. HB 1749 amends the Local Government Code by adding Section 304.0015 to allow attainment of such savings.

HB 1749 is designed to enhance the ability of political subdivision corporations to pursue long-term power contracts on behalf of member cities and other political subdivisions. The bill addresses several problems encountered in attempting to negotiate with power suppliers, including the length of the contract term, potential multiple review of the same contract by the Attorney General, and difficulties in educating governing bodies and obtaining approval of contract terms, while maintaining the level of confidentiality desired by potential suppliers.

### **RULEMAKING AUTHORITY**

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

### **ANALYSIS**

SECTION 1. Section 304.0015(a), Local Government Code, will permit a political subdivision to contract for the purchase of electricity for a term of up to 30 years. Current law limits contracts entered into by political subdivisions to a term of 25 years. This Subsection also clarifies existing law by explicitly stating that contracts for the purchase of electricity between political subdivisions and political subdivision corporations are exempt from competitive bidding requirements. This Subsection further provides that a contract between a political subdivision and a political subdivision corporation for the purchase of electricity is a security agreement, which will allow for the issuance of debt by the corporation, in the event that prepayment of the capacity portion of the contract price is necessary.

Section 304.0015(b), (c) and (d), Local Government Code, allow a political subdivision that is a member of a political subdivision corporation to establish maximum payment amounts, interest rates, and amounts of electricity to be purchased under the contract and to designate a specific individual to negotiate and sign electric power contracts within those parameters defined by the political subdivision.

Section 304.0015(e), Local Government Code, provides that political subdivision members of a political subdivision corporation have the same contracting authority as current law allows for a municipally-owned utility.

Section 304.0015(f) provides that a political subdivision entering into a power contract with a political subdivision corporation in which it is a member is not required to submit the contract to the Attorney General, or any other officer of the State, for approval. If the contract is submitted for review and approval, as may be authorized by law, and is approved, the contract cannot be contested, except for fraud or forgery.

SECTION 2. Establishes the effective date of the Act.

**EFFECTIVE DATE**

Upon passage, or, if the Act does not receive the necessary vote, the Act takes effect September 1, 2007.