

BILL ANALYSIS

S.B. 2306
By: Williams
Natural Resources
Committee Report (Unamended)

BACKGROUND AND PURPOSE

Section 13.183 of the Texas Water Code authorizes the Texas Commission on Environmental Quality (TCEQ) to fix water rates for water and sewer utilities that will "permit the utility a reasonable opportunity to earn a reasonable return on its invested capital used and useful in rendering service to the public over and above its reasonable and necessary operating expenses; and preserve the financial integrity of the utility."

TCEQ interprets the phrase "used and useful" to mean that any time invested capital is taken out of use, it is no longer "useful" and therefore prohibits water and sewer utilities from recovering the remaining depreciation as a cost of service. Water and sewer utilities constantly add and retire infrastructure for many reasons, such as compliance, system maintenance, growth, and to meet system demands. Despite its invested capital being taken out of use, often times it has continued useful life for depreciation purposes. As a result, water and sewer utilities are prohibited from recovering any remaining depreciation on these assets as part of its cost of service.

Currently, 49 other states allow gas, electric, and water utilities to recover as part of their cost of service the remaining depreciation for assets previously used, but no longer in use. In Texas, gas and electric utilities are authorized to recover the remaining depreciation for these assets, but water and sewer utilities are prohibited from doing so.

S.B. 2306 authorizes water and sewer utilities to recover as a cost of service any remaining depreciation on retired assets.

RULEMAKING AUTHORITY

It is the Committee's opinion that rulemaking authority is expressly granted to the Texas Commission on Environmental Quality in SECTION 1 (Section 13.131, Water Code) of this bill.

ANALYSIS

SECTION 1. Amends Section 13.131(c), Water Code, to require that rules adopted under this subsection require that the book cost less net salvage of depreciable utility plant retired be charged in its entirety to the accumulated depreciation account in a manner consistent with accounting treatment of regulated electric and gas utilities in this state.

SECTION 2. Provides the effective date of this Act.

EFFECTIVE DATE

This Act takes effect immediately if it receives a vote of two-thirds of all the members elected to each house, as provided by Section 39, Article III, Texas Constitution. If this Act does not receive the vote necessary for immediate effect, this Act takes effect September 1, 2009.