LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 81ST LEGISLATIVE REGULAR SESSION

April 7, 2009

TO: Honorable Jim Keffer, Chair, House Committee on Energy Resources

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

IN RE: **HB1194** by Dukes (Relating to the regulation of propane utility companies.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1194, As Introduced: a negative impact of ($3,684,853) through the biennium ending August 31, 2011.

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
2010	($1,867,534)
2011	($1,817,319)
2012	($1,717,319)
2013	($1,717,319)
2014	($1,717,319)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from *General Revenue Fund* 1
2010	($1,867,534)
2011	($1,817,319)
2012	($1,717,319)
2013	($1,717,319)
2014	($1,717,319)

Fiscal Year	Change in Number of State Employees from FY 2009
2010	22.0
2011	22.0
2012	22.0
2013	22.0
2014	22.0

Fiscal Analysis

The bill would add “propane utility” within the definition of the term “gas utility,” thereby including such entities within the scope of the Railroad Commission’s (RRC) exclusive original jurisdiction if they distribute propane gas in areas outside a municipality and areas inside a municipality whose jurisdiction is surrendered to the RRC. Also included within the RRC's jurisdiction would be entities that transmit, transport, deliver, or sell propane gas to a gas utility that distributes gas to the public.

Current requirements prohibiting gas utilities from refusing service would not apply to a propane utility. However, propane utilities would be required to comply with requirements prohibiting the disconnection of gas service during an extreme weather emergency.

Methodology

This estimate assumes that all 4,193 licensed liquid propane (LP) dealers in the state would be considered “propane utilities” and adhere to requirements to entities under the broader definition of “gas utility.” This would subject the entire LP-gas industry to economic regulation, including entities that operate cylinder exchange facilities and bobtail delivery services. Requested rate increases would be evaluated according to the same standards used for natural gas distribution utility rate cases, and the propane utility would have the burden of proving that its requested rates were just and reasonable.

This estimate assumes that affected persons would have standing to object and request a contested case hearing if the following conditions were met: a proposed increase would increase the aggregate revenues of the applicant more than the greater of $100,000 or 2-1/2 percent. The Railroad Commission expects that it’s Office of General Counsel and the Gas Services Division could be impacted significantly by the number of contested case hearings at the RRC if even a small percentage of the 4,193 LP-gas licensees requested rate increases that would draw a protest and require a hearing. However, this estimate assumes that the vast majority of protests would come from subdivisions served by LP-gas distributors, which the Railroad Commission reports comprises only 74 of the 4,193 LP-gas licensees. This estimate assumes that LP-gas distributors would also be less likely to raise rates under the proposed regulatory environment.

This estimate does assume the Railroad Commission would experience an increase in workload expected as a result of the bill's passage, due to the bill's audit requirement. This estimate assumes each of the 4,193 LP-gas licensees would be audited once every three years.

It is estimated that implementation of this bill would require a total of 22.0 additional FTEs and related costs to handle the additional regulatory functions for an estimated 4,193 propane utilities. This estimate assumes that the agency would require an additional 6.0 FTEs in the Office of the General Counsel to handle additional rate cases and the additional regulatory function. It is estimated that the agency's Gas Services Division would also require an additional 16.0 FTEs to perform field audits and handle the additional regulatory functions required by the bill. The total cost to implement the bill is estimated at $1.9 million in fiscal year 2010, $1.8 million in 2011 and $1.7 million in future years as shown in the table above. This estimate assumes the costs would be paid out of the General Revenue Fund.

The Railroad Commission reports that there would be no new revenue as a result of the bill's passage because the bill does not require propane utilities to pay the gas utility tax, and as a result, it cannot be assumed that there will be a revenue source to offset the costs of the bill.

Technology

This estimate assumes a technology impact of $176,641 in fiscal year 2010 and $164,188 in 2011, with costs decreasing to approximately $63,000 by fiscal year 2015. This estimate includes includes rewriting the Gas Utilities Tariff application.

Local Government Impact

Because each municipality has exclusive original jurisdiction over the rates, operations, and services of a gas utility within the municipality, unless a municipality would surrenders its jurisdiction to the RRC, a municipality would likely see a significant cost increase in regulating propane utilities. The cost would depend on the number of licensees within a municipality's jurisdiction and the number of rate cases that would arise.

Source Agencies: 455 Railroad Commission

LBB Staff: JOB, ZS, TL, SD