

LEGISLATIVE BUDGET BOARD
Austin, Texas

FISCAL NOTE, 82ND LEGISLATIVE REGULAR SESSION

March 23, 2011

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

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

IN RE: HB1273 by Workman (Relating to the regulation of propane utility companies.), **As Introduced**

Estimated Two-year Net Impact to General Revenue Related Funds for HB1273, As Introduced: a negative impact of (\$5,634,786) through the biennium ending August 31, 2013.

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
2012	(\$2,823,394)
2013	(\$2,811,392)
2014	(\$2,711,117)
2015	(\$2,711,117)
2016	(\$2,711,117)

All Funds, Five-Year Impact:

Fiscal Year	Probable Savings/(Cost) from General Revenue Fund 1	Change in Number of State Employees from FY 2011
2012	(\$2,823,394)	37.0
2013	(\$2,811,392)	37.0
2014	(\$2,711,117)	37.0
2015	(\$2,711,117)	37.0
2016	(\$2,711,117)	37.0

Fiscal Analysis

This bill would add propane utilities to the existing definition of a gas utility, thereby bringing these licensees within the scope of the Railroad Commission's rate-setting regulatory framework. The Railroad Commission would have exclusive original jurisdiction over the distribution of propane gas within areas outside a municipality and areas inside a municipality that surrenders its jurisdiction to the commission. The bill also would give the Railroad Commission exclusive original jurisdiction over transmission, transportation, delivery or sale of propane gas within the state.

The bill would provide an exception for propane utilities from the requirement other gas utilities have to provide service to a customer that is an agency of the state, a state institution of higher education, a public school district, a political subdivision of the state, a military installation of the United States, or a United States Department of Veterans Affairs facility.

The bill would prohibit a propane utility from disconnecting service during an extreme weather emergency, meaning a period when the temperature did not rise above freezing during the prior day and is not expected to rise above freezing during the proceeding 24 hours.

Methodology

The Railroad Commission licenses liquefied propane (LP) companies to operate in Texas, issuing licenses in 16 different LP-gas license categories. According to the agency, as of February 2011, there were a total of 4,359 companies with LP-gas licenses issued by the Railroad Commission. Based on this bill's proposed definition of the term "propane utility," the Railroad Commission expects that 77 percent of all LP-gas licensees (3,376 of 4,359) would have their rates set by a regulatory authority in the same way that natural gas utilities have their rates set by regulatory authorities. Under current law, LP-gas licensees are subject to Railroad Commission jurisdiction only for licensing and safety.

The Railroad Commission reports that the addition of 3,376 new gas utilities to the current population of gas utilities that are rate-regulated would have a significant impact on agency operations in the following ways: the Gas Services Division and the Office of General Counsel would experience an immediate and sustained increase in workload required to prepare and administer training to propane licensees, to conduct audits of propane licensees, to participate in propane regulatory cases as technical examiners and expert witnesses, to administer tariffs, and to create propane policy and rule recommendations for the Commission, as appropriate. In addition, personnel in the Gas Services Division would need to train and assist affected utilities on certain requirements and various areas relating to recordkeeping, reporting, policies, procedures, quality of service rules, etc.

It is estimated that passage of the bill would result in the need for 37.0 additional FTEs at the Railroad Commission. An estimated 2.0 additional hearings examiners would be required in the Office of General Counsel to handle the estimated rate cases and complaint and/or enforcement cases arising out of rates and services regulation each year. An additional 35.0 FTEs in the Gas Services Division are estimated to be needed, including: 12.0 utility specialists, 15.0 auditors, 4.0 research specialists, and 4.0 administrative support employees. Salary costs associated with the additional staff plus technology costs are estimated at \$2.7 million to \$2.8 million per fiscal year. This estimate assumes these costs would be paid out of the General Revenue Fund, as shown in the table above.

Technology

The Railroad Commission expects that implementation of the bill would require a rewrite of the agency's Gas Utilities Tariff application, an information technology service project estimated to cost approximately \$143,000 in each of the first two years of implementation (fiscal years 2012 and 2013), with annual maintenance costs estimated at \$43,000 per fiscal year thereafter.

State data center costs are expected to increase by approximately \$32,000 in the first year of implementation and \$20,000 per fiscal year thereafter.

Local Government Impact

The bill could affect some municipalities that are gas utility regulators, since passage of the bill would result in such entities being required to regulate propane provider rates. However, the Railroad Commission reports that most propane customers tend to be located outside of municipal boundaries that would fall under the jurisdiction of the Railroad Commission. Therefore, no significant fiscal impact to local governments is expected as a result of the bill's passage.

Source Agencies: 455 Railroad Commission

LBB Staff: JOB, SZ, ZS, TL