

BILL ANALYSIS

C.S.H.B. 4384
By: Darby
Energy Resources
Committee Report (Substituted)

BACKGROUND AND PURPOSE

The bill author has informed the committee that under current law, gas utilities must wait over a year before recovering costs on new infrastructure investments through customer rates, which puts a financial strain on utilities as the utilities must fund infrastructure investments without immediate cost recovery. The bill author has also informed the committee that during this waiting period, utilities incur costs but cannot recover them which makes it more challenging for utilities to finance ongoing infrastructure improvements and that this lag in cost recovery can slow down investment in safe and reliable gas distribution systems, which ultimately impacts consumers. C.S.H.B. 4384 seeks to address this issue by authorizing a gas utility to defer certain costs, depreciation, and property taxes for future recovery as a regulatory asset in order to mitigate regulatory lag, allow utilities to more efficiently reinvest in infrastructure improvements, and ensure that the state continues to have a safe and reliable gas distribution system.

CRIMINAL JUSTICE IMPACT

It is the committee's opinion that this bill does not expressly create a criminal offense, increase the punishment for an existing criminal offense or category of offenses, or change the eligibility of a person for community supervision, parole, or mandatory supervision.

RULEMAKING AUTHORITY

It is the committee's opinion that rulemaking authority is expressly granted to the Railroad Commission of Texas in SECTION 2 of this bill.

ANALYSIS

C.S.H.B. 4384 amends the Utilities Code to authorize a gas utility to defer the following for future recovery as a regulatory asset:

- post in-service carrying costs;
- depreciation associated with the unrecovered gross plant; and
- property taxes associated with the unrecovered gross plant.

The bill defines the following:

- "gross plant" as a gas utility's plant, facilities, or equipment that has been placed in service;
- "post in-service carrying costs" as the product of an unrecovered gross plant multiplied by a gas utility's pre-tax weighted average cost of capital established in the final order of the Railroad Commission of Texas (RRC) in the gas utility's most recent general rate proceeding, compounded at the gas utility's pre-tax weighted average cost of capital until recovery; and
- "unrecovered gross plant" as a gross plant whose cost is not yet being recovered in a gas utility's rates and not already being deferred to a regulatory asset.

C.S.H.B. 4384 requires a regulatory asset established under the bill's provisions to be included in the RRC's authorized cost recovery mechanism under statutory provisions relating to an interim adjustment in a gas utility's monthly customer charge or initial block rate for the recovery of the cost of changes in the investment in service for gas utility services. The bill requires a gas utility that establishes a regulatory asset under the bill's provisions, on recovery in rates of the regulatory asset, to make appropriate accounting adjustments to reflect the recovery in rates. The bill requires the RRC to review the costs included in a regulatory asset established by a gas utility under such provisions in a general rate proceeding. The bill establishes that the costs are subject to a refund with interest to the extent the RRC by order disallows recovery in rates.

C.S.H.B. 4384 requires the RRC to adopt rules to implement the bill's provisions not later than the 180th day after the bill's effective date.

C.S.H.B. 4384 applies only to a cost recovery proceeding commenced on or after the bill's effective date. A proceeding commenced before that date is governed by the law in effect on the date the proceeding was commenced, and the former law is continued in effect for that purpose.

EFFECTIVE DATE

On passage, or, if the bill does not receive the necessary vote, September 1, 2025.

COMPARISON OF INTRODUCED AND SUBSTITUTE

While C.S.H.B. 4384 may differ from the introduced in minor or nonsubstantive ways, the following summarizes the substantial differences between the introduced and committee substitute versions of the bill.

The substitute does not include the authorization in the introduced for a gas utility to defer for future recovery as a regulatory asset incremental operations and maintenance expense associated with the unrecovered gross plant that is not being recovered in rates.

With respect to the bill's provision establishing that costs included in a regulatory asset are subject to a refund to a certain extent, the introduced and the substitute differ as follows:

- the substitute includes a specification that was not in the introduced that such refund is with interest; and
- whereas the introduced specified such extent as the extent to which the RRC orders a disallowance, the substitute specifies such extent as the extent to which the RRC by order disallows recovery in rates.