

AN ACT

relating to certain proceedings by the Public Utility Commission of Texas regarding water or sewer service.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Sections 12.013(b) and (d), Water Code, are amended to read as follows:

(b) In this section, "political subdivision" means municipalities ~~[incorporated cities, towns or villages]~~, counties, river authorities, water districts, and other special purpose districts.

(d) The utility commission's jurisdiction under this section relating to a municipality ~~[incorporated cities, towns, or villages]~~ shall be limited to water furnished by the municipality ~~[such city, town, or village]~~ to another political subdivision, other than another municipality, on a wholesale basis.

SECTION 2. Section 13.002, Water Code, is amended by adding Subdivision (16-a) to read as follows:

(16-a) "Public utility agency" means a public utility agency created under Chapter 572, Local Government Code.

SECTION 3. Section 13.043, Water Code, is amended by adding Subsection (f-1) and amending Subsection (j) to read as follows:

(f-1) Subsection (f) does not apply to a decision of a municipality regarding wholesale water or sewer service provided to another municipality.

(j) In an appeal under this section, the utility commission shall ensure that every appealed rate is just and reasonable. Rates shall not be unreasonably preferential, prejudicial, or discriminatory but shall be sufficient, equitable, and consistent in application to each class of customers. The utility commission shall use a methodology that preserves the financial integrity of the retail public utility. ~~[For agreements between municipalities the utility commission shall consider the terms of any wholesale water or sewer service agreement in an appellate rate proceeding.]~~

SECTION 4. Section 13.183, Water Code, is amended by amending Subsection (c) and adding Subsections (c-1), (c-2), (c-3), and (c-4) to read as follows:

(c) To ensure that retail customers receive a higher quality, more affordable, or more reliable water or sewer service, to encourage regionalization, or to maintain financially stable and technically sound utilities, the regulatory authority, by rule or ordinance, as appropriate, may adopt specific alternative ratemaking methodologies for water or sewer rates to allow for more timely and efficient cost recovery. Appropriate alternative ratemaking methodologies are the introduction of new customer classes, the cash needs method, and phased and multi-step rate changes. The regulatory authority may also adopt system improvement charges that may be periodically adjusted to ensure timely recovery of infrastructure investment. If the utility commission is the appropriate regulatory authority, the utility commission shall enter a final order on a request for a system improvement charge under this subsection not later than the 60th

1 day after the date the utility commission determines that a
2 complete application for a system improvement charge has been
3 filed. The utility commission may extend the deadline for not more
4 than 15 days for good cause. The utility commission by rule shall
5 establish a schedule that requires all utilities that have
6 implemented a system improvement charge approved by the utility
7 commission to make periodic filings with the utility commission to
8 modify or review base rates charged by the utility. Overall
9 revenues determined according to an alternative ratemaking
10 methodology adopted under this section must provide revenues to the
11 utility that satisfy the requirements of Subsection (a). The
12 regulatory authority may not approve rates under an alternative
13 ratemaking methodology unless the regulatory authority adopts the
14 methodology before the date the rate application was
15 administratively complete.

16 (c-1) The utility commission shall by rule:

17 (1) establish the information required for an
18 application for a system improvement charge to be considered
19 complete by the utility commission under this section, which must
20 include the documentation listed in Subsection (c-2); and

21 (2) prescribe a standard form for an application to
22 the utility commission for a system improvement charge under
23 Subsection (c).

24 (c-2) An application for a system improvement charge under
25 Subsection (c) may not be considered complete by the utility
26 commission unless, to substantiate each claimed eligible cost of a
27 utility's eligible plant that is not already included in the

applying utility's rates, the application includes:

(1) receipts;

(2) invoices;

(3) contracts; or

(4) other documentation of eligible costs.

(c-3) An application for a system improvement charge under Subsection (c) may not be considered complete by the utility commission before the 30th day after the date the application is filed with the utility commission.

(c-4) At the time an applicant files an application for a system improvement charge under Subsection (c) with the utility commission, the applicant shall provide a copy of the application to the Office of Public Utility Counsel. The utility commission shall allow the office to comment on the application not later than the 30th day after the date the application is filed. The utility commission shall provide to the office, at no cost and in electronic form, any data related to the application held by the commission. Information provided to the office under this subsection that is confidential and not subject to disclosure by the utility commission under Chapter 552, Government Code, or other law is confidential and not subject to disclosure by the office.

SECTION 5. Section 13.301(1), Water Code, is amended to read as follows:

(1) Notwithstanding any other provision of this section or Section 13.302, the utility commission by rule shall adopt a ~~an~~ expedited process to expedite an application for the acquisition of the stock or ownership interest under Section 13.302, or of

1 assets under this section, of a utility in receivership under
2 Section 13.412, a utility in supervision under Section 13.4131, or
3 a utility in temporary management under Section 13.4132, and, if
4 applicable, its certificated service area, by a Class A or Class B
5 utility. The applicant must have been appointed as a temporary
6 manager or supervisor for the utility by the utility commission or
7 commission or have been appointed as a receiver for the utility at
8 the request of the utility commission or commission before filing
9 the application [~~that allows a person appointed by the utility~~
10 ~~commission or commission under Section 13.4132 as a temporary~~
11 ~~manager of a utility, utility in receivership, or utility in~~
12 ~~supervision, who is also an operator of a Class A or Class B utility~~
13 ~~to apply for utility commission approval of the person's~~
14 ~~acquisition of the stock, ownership interest, or assets of the~~
15 ~~temporarily managed and operated utility, utility in receivership,~~
16 ~~or utility in supervision, its facilities, and, if applicable, its~~
17 ~~certificated service area~~]. The [~~expedited~~] process must:

18 (1) waive public notice requirements regardless of
19 whether the applicant [~~person~~] elects to charge initial rates in
20 accordance with Section 13.3011 or use a voluntary valuation
21 determined under Section 13.305;

22 (2) require approval of the acquisition transaction if
23 the transaction is considered to be in the public interest; and

24 (3) provide that:

25 (A) the applicant's [~~person's~~] appointment is
26 considered sufficient to demonstrate adequate financial,
27 managerial, and technical capability for providing continuous and

adequate service to the service area to be acquired and any areas currently certificated to the applicant ~~[person]~~; and

(B) all used and useful invested capital and just and reasonable operations and maintenance costs incurred by the applicant ~~[person]~~ during the applicant's ~~[person's]~~ appointment as temporary manager and operator of the utility, utility in receivership, or utility in supervision to be acquired are considered to be a regulatory asset for the applicant ~~[person]~~ and are recoverable in the applicant's ~~[person's]~~ next comprehensive rate proceeding or system improvement charge application.

SECTION 6. Subchapter H, Chapter 13, Water Code, is amended by adding Section 13.3021 to read as follows:

Sec. 13.3021. SALES, TRANSFERS, AND MERGERS FOR CERTAIN RETAIL PUBLIC UTILITIES. (a) The utility commission by rule shall adopt an expedited process to authorize a municipally owned utility, a county, a water supply or sewer service corporation, a public utility agency, or a district or authority created under Section 52, Article III, or Section 59, Article XVI, Texas Constitution, to acquire the stock or ownership interest under Section 13.302, or assets under Section 13.301, of a utility in receivership under Section 13.412, a utility in supervision under Section 13.4131, or a utility in temporary management under Section 13.4132, and, if applicable, its certificated service area, in the manner provided by Sections 13.301 and 13.302.

(b) The municipally owned utility, county, water supply or sewer service corporation, public utility agency, district, or authority must have been appointed as a temporary manager or

1 supervisor for the utility by the utility commission or commission
2 or as a receiver for the utility at the request of the utility
3 commission or commission before filing an acquisition application
4 under this section.

5 (c) The process must:

6 (1) be based on the expedited process adopted under
7 Section 13.301(1), except for any aspects of the process that
8 cannot be applied to an entity over which the utility commission
9 does not have original rate jurisdiction;

10 (2) waive public notice requirements;

11 (3) require approval of the acquisition transaction if
12 the transaction is considered to be in the public interest; and

13 (4) provide that the municipally owned utility's,
14 county's, water supply or sewer service corporation's, public
15 utility agency's, district's, or authority's appointment is
16 considered sufficient to demonstrate adequate financial,
17 managerial, and technical capability for providing continuous and
18 adequate service to the service area to be acquired and any areas
19 currently certificated to the municipally owned utility, county,
20 corporation, public utility agency, district, or authority.

21 SECTION 7. Section 13.412(g), Water Code, is amended to
22 read as follows:

23 (g) Notwithstanding Section 64.021, Civil Practice and
24 Remedies Code, a receiver appointed under this section may be a
25 person, a municipally owned utility, a county, a water supply or
26 sewer service corporation, a public utility agency, or a district
27 or authority created under Section 52, Article III, or Section 59,

1 Article XVI, Texas Constitution, and may seek approval from the
2 utility commission and the commission to acquire the water or sewer
3 utility's facilities and transfer the utility's certificate of
4 convenience and necessity. The receiver must apply in accordance
5 with Subchapter H.

6 SECTION 8. Section 13.4132, Water Code, is amended by
7 amending Subsection (a) and adding Subsection (a-1) to read as
8 follows:

9 (a) The utility commission or the commission, after
10 providing to the utility notice and an opportunity to be heard by
11 the commissioners at a utility commission or commission meeting,
12 may authorize a willing person, municipally owned utility, county,
13 water supply or sewer service corporation, public utility agency,
14 or district or authority created under Section 52, Article III, or
15 Section 59, Article XVI, Texas Constitution, to temporarily manage
16 and operate a utility if the utility:

17 (1) has discontinued or abandoned operations or the
18 provision of services;

19 (2) has been or is being referred to the attorney
20 general for the appointment of a receiver under Section 13.412; or

21 (3) provides retail water or sewer utility service
22 through fewer than 10,000 taps or connections and violates a final
23 order of the commission by failing to:

24 (A) provide system capacity that is greater than
25 the required raw water or groundwater production rate or the
26 anticipated daily demand of the system;

27 (B) provide a minimum pressure of 35 pounds per

1 square inch throughout the distribution system under normal
2 operating conditions; or

3 (C) maintain accurate or properly calibrated
4 testing equipment or other means of monitoring the effectiveness of
5 a chemical treatment or pathogen inactivation or removal process.

6 (a-1) For the purposes of this section, a reference to a
7 person includes a municipally owned utility, county, water supply
8 or sewer service corporation, public utility agency, or district or
9 authority created under Section 52, Article III, or Section 59,
10 Article XVI, Texas Constitution.

11 SECTION 9. (a) The Public Utility Commission of Texas shall
12 adopt the rules required by Section 13.183(c-1), Water Code, as
13 added by this Act, not later than September 1, 2026.

14 (b) Section 13.183(c), Water Code, as amended by this Act,
15 and Section 13.183(c-2), Water Code, as added by this Act, apply
16 only to an application for system improvement charges received by
17 the Public Utility Commission of Texas on or after September 1,
18 2026. An application for system improvement charges received
19 before September 1, 2026, is governed by the law in effect on the
20 date the application is filed, and the former law is continued in
21 effect for that purpose.

22 SECTION 10. This Act takes effect September 1, 2025.

President of the Senate

Speaker of the House

I hereby certify that S.B. No. 740 passed the Senate on March 24, 2025, by the following vote: Yeas 30, Nays 0; and that the Senate concurred in House amendments on May 26, 2025, by the following vote: Yeas 31, Nays 0.

Secretary of the Senate

I hereby certify that S.B. No. 740 passed the House, with amendments, on May 22, 2025, by the following vote: Yeas 144, Nays 0, three present not voting.

Chief Clerk of the House

Approved:

Date

Governor