

1-1 By: Perry S.B. No. 740  
1-2 (In the Senate - Filed January 8, 2025; February 7, 2025,  
1-3 read first time and referred to Committee on Water, Agriculture and  
1-4 Rural Affairs; March 10, 2025, reported adversely, with favorable  
1-5 Committee Substitute by the following vote: Yeas 9, Nays 0;  
1-6 March 10, 2025, sent to printer.)

1-7 COMMITTEE VOTE

	Yea	Nay	Absent	PNV
1-8				
1-9	Perry	X		
1-10	Hancock	X		
1-11	Birdwell	X		
1-12	Blanco	X		
1-13	Gutierrez	X		
1-14	Hinojosa of Nueces	X		
1-15	Johnson	X		
1-16	Kolkhorst	X		
1-17	Sparks	X		

1-18 COMMITTEE SUBSTITUTE FOR S.B. No. 740 By: Perry

1-19 A BILL TO BE ENTITLED  
1-20 AN ACT

1-21 relating to certain proceedings by the Public Utility Commission of  
1-22 Texas regarding water or sewer service.

1-23 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

1-24 SECTION 1. Section 13.183, Water Code, is amended by  
1-25 amending Subsection (c) and adding Subsections (c-1) and (c-2) to  
1-26 read as follows:

1-27 (c) To ensure that retail customers receive a higher  
1-28 quality, more affordable, or more reliable water or sewer service,  
1-29 to encourage regionalization, or to maintain financially stable and  
1-30 technically sound utilities, the regulatory authority, by rule or  
1-31 ordinance, as appropriate, may adopt specific alternative  
1-32 ratemaking methodologies for water or sewer rates to allow for more  
1-33 timely and efficient cost recovery. Appropriate alternative  
1-34 ratemaking methodologies are the introduction of new customer  
1-35 classes, the cash needs method, and phased and multi-step rate  
1-36 changes. The regulatory authority may also adopt system  
1-37 improvement charges that may be periodically adjusted to ensure  
1-38 timely recovery of infrastructure investment. If the utility  
1-39 commission is the appropriate regulatory authority, the utility  
1-40 commission shall enter a final order on a request for a system  
1-41 improvement charge under this subsection not later than the 60th  
1-42 day after the date the utility commission determines that a  
1-43 complete application for a system improvement charge has been  
1-44 filed. The utility commission may extend the deadline for not more  
1-45 than 15 days for good cause. The utility commission by rule shall  
1-46 establish a schedule that requires all utilities that have  
1-47 implemented a system improvement charge approved by the utility  
1-48 commission to make periodic filings with the utility commission to  
1-49 modify or review base rates charged by the utility. Overall  
1-50 revenues determined according to an alternative ratemaking  
1-51 methodology adopted under this section must provide revenues to the  
1-52 utility that satisfy the requirements of Subsection (a). The  
1-53 regulatory authority may not approve rates under an alternative  
1-54 ratemaking methodology unless the regulatory authority adopts the  
1-55 methodology before the date the rate application was  
1-56 administratively complete.

1-57 (c-1) The utility commission shall by rule:

1-58 (1) establish the information required for an  
1-59 application for a system improvement charge to be considered  
1-60 complete by the utility commission under this section, which must

include the documentation listed in Subsection (c-2); and  
 (2) prescribe a standard form for an application to the utility commission for a system improvement charge under Subsection (c).

(c-2) An application for a system improvement charge under Subsection (c) may not be considered complete by the utility commission unless, to substantiate each claimed eligible cost of a 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.

SECTION 2. 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 assets under this section, 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, by a Class A or Class B utility. The applicant must have been appointed as a temporary manager or supervisor for the utility by the utility commission or commission or have been appointed as a receiver for the utility at the request of the utility commission or commission before filing the application ~~[that allows a person appointed by the utility commission or commission under Section 13.4132 as a temporary manager of a utility, utility in receivership, or utility in supervision, who is also an operator of a Class A or Class B utility to apply for utility commission approval of the person's acquisition of the stock, ownership interest, or assets of the temporarily managed and operated utility, utility in receivership, or utility in supervision, its facilities, and, if applicable, its certificated service area].~~ The ~~[expedited]~~ process must:

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

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

(3) provide that:  
 (A) the applicant's ~~[person's]~~ appointment is considered sufficient to demonstrate adequate financial, 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 3. 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, 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, district, or authority must have been appointed as a temporary manager or supervisor for the utility by the utility commission or commission or as a receiver for the utility at the request of the utility commission or commission before filing an acquisition application under this section.

(c) The process must:

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

(2) waive public notice requirements;

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

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

SECTION 4. Section 13.412(g), Water Code, is amended to read as follows:

(g) Notwithstanding Section 64.021, Civil Practice and Remedies Code, a receiver appointed under this section may:

(1) be a person, a municipally owned utility, a county, a water supply or sewer service corporation, or a district or authority created under Section 52, Article III, or Section 59, Article XVI, Texas Constitution; and

(2) seek approval from the utility commission and the commission to acquire the water or sewer utility's facilities and transfer the utility's certificate of convenience and necessity. The receiver must apply in accordance with Subchapter H.

SECTION 5. Section 13.4132, Water Code, is amended by amending Subsection (a) and adding Subsection (a-1) to read as follows:

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

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

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

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

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

(B) provide a minimum pressure of 35 pounds per square inch throughout the distribution system under normal operating conditions; or

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

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

SECTION 6. (a) The Public Utility Commission of Texas shall adopt the rules required by Section 13.183(c-1), Water Code, as added by this Act, not later than September 1, 2026.

4-1 (b) Section 13.183(c), Water Code, as amended by this Act,  
4-2 applies only to an application for system improvement charges  
4-3 received by the Public Utility Commission of Texas on or after  
4-4 September 1, 2026. An application for system improvement charges  
4-5 received before the effective date of this Act is governed by the  
4-6 law in effect on the date the application is filed, and the former  
4-7 law is continued in effect for that purpose.

4-8 SECTION 7. This Act takes effect September 1, 2025.

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