

- SUBJECT:** Allowing water utilities to issue regional or statewide unified rate structure
- COMMITTEE:** Natural Resources — favorable, without amendment
- VOTE:** 10 ayes — Ritter, Corte, Creighton, Frost, T. King, Laubenberg, Lucio, Martinez Fischer, D. Miller, Smithee
- 0 nays
- 1 present, not voting — Callegari
- WITNESSES:** For — Steve Blackhurst, Aqua TX, Inc.
- Against — None
- BACKGROUND:** Water Code, sec. 13.145 states that a utility may consolidate more than one utility system under a single tariff only if:
- the systems under the tariff are substantially similar in terms of facilities, quality of service, and cost of service; and
 - the tariff provides for rates that promote water conservation for single-family residences and landscape irrigation.
- These provisions do not apply to a public utility that provided utility service in only 24 counties on January 1, 2003.
- DIGEST:** HB 3256 would amend Water Code, sec. 13.145 to state that a utility could consolidate more than one system under a single tariff on a regional or statewide basis if the tariff provided for rates that promoted water conservation for single-family residences and landscape irrigation.
- The bill would take effect September 1, 2009.
- SUPPORTERS SAY:** HB 3256 would allow water utilities that operated multiple water systems to consolidate all customers into a unified rate structure, or use single-tariff pricing, on a regional or statewide basis. Utilities regularly improve water systems to increase efficiencies in water use and to ensure that the system meets regulatory standards. Such upgrades are capital intensive

and, depending on the number of customers in a given water system, can be onerous to individual ratepayers. In an effort to defray the needed capital costs for system upgrades, utilities can institute single tariff pricing in order to spread the costs of system upgrades across all their systems. This allows utilities to take advantage of economies of scale to spread capital costs over an enlarged customer pool while increasing its overall operating efficiency, thereby minimizing the need for rate increases while allowing the utility to make system improvements as needed for the benefit of customers.

Currently, utilities cannot institute single tariff pricing for their systems unless the systems are “substantially similar” in their cost, infrastructure, and quality of service. This subjective standard has led to costly and prolonged rate cases, ultimately leading to increased rates for utility customers. HB 3256 would address this issue and allow utilities eventually to upgrade facilities for all their customers at a lower cost. Under the bill, TCEQ would still have rate jurisdiction to hear customer protests on the grounds of cost.

OPPONENTS
SAY:

HB 3256 would remove current consumer protections for ratepayers to dispute proposed rate increases for system improvements that do not benefit them. The bill effectively would create winners and losers by allowing ratepayers who had paid for their system upgrades unfairly to subsidize those whose systems needed improvements. For individuals with fixed or modest incomes, this would represent a particularly onerous burden.

Also, while customers still could protest rate increases, removing the “substantially similar” requirement for consolidation could make rate increases for any system upgrades a legitimate cost for a utility assessing a regional or statewide rate. As such, the bill would effectively remove any grounds on which customers could protest a rate increase.

NOTES:

A related bill, HB 2486 by P. King, which would amend Water Code, sec. 13.145 to allow a utility to consolidate systems under a single tariff only if the regulatory agency determined that all of the systems under the tariff were substantially similar at the time the utility applied for the uniform tariff, is pending in the Natural Resources Committee.