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FISCAL IMPACT STATEMENT

LS 6992

BILL NUMBER: HB 1319

NOTE PREPARED: Feb 16, 2015

BILL AMENDED: Feb 16, 2015

SUBJECT: Acquisition of Distressed Utilities.

FIRST AUTHOR: Rep. Koch

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: GENERAL
 DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides that the Indiana Utility Regulatory Commission (IURC) may allow a utility company that acquires certain water or wastewater utilities to include any cost differential in the utility company's rate base.

Effective Date: July 1, 2015.

Explanation of State Expenditures: *Summary* - This bill provides that a utility company may petition the IURC in an independent proceeding to approve a petition to include the cost differential in their rate base when they acquire property from another utility company. Any increase in expenditures to the IURC would be offset by public utility fees.

Additional Information - The operating budget of the IURC is funded by regulated utilities operating in Indiana. The IURC determines the rate at which to bill the utilities based on the agency's budget, less reversions, divided by the total amount of gross intrastate operating revenue received by the regulated utilities for the previous fiscal year. Based on this formula, utilities are currently billed approximately 0.12% of their gross intrastate operating revenues.

Explanation of State Revenues: (Revised) *Summary* - This bill provides that a utility company may petition the IURC to approve a petition to include the cost differential in their rate base when they acquire property from another utility company. The cost differential would be amortized over a reasonable time with corresponding reductions in the rate base. To the extent that utility rates are affected as a result of this bill and the determinations made by the IURC in proceedings, there could be a change in Utility Receipts Tax

(URT), Utility Services Use Tax (USUT), and Sales Tax collections. However, the bill provides that the IURC may not approve petitions if they find that the rates charged by the utility company before acquiring the property will increase unreasonably as a result of the acquisition. The overall impact would depend on the rates and charges that were paid by customers of the distressed utility, and determinations made by the IURC in independent proceedings concerning petitions to approve the cost differential in a utility company's rate base.

(Revised) Additional Information - The bill defines cost differential as the difference between: (1) the cost to a utility company that acquires property from a distressed utility; minus (2) the difference between: (A) the cost of the utility property when originally put into service by the distressed utility; minus (B) contributions or advances in aid of construction plus applicable accrued depreciation.

Approvals may be made by the IURC prior to acquisition if the utility company provides notices of the proposed acquisition and any changes in rates or charges to customers of the distressed utility. The bill provides that if the IURC determines that all or part of the cost differential included in the rate base is unreasonable, the IURC shall remove the cost differential from the rate base and order refunds of the excess revenue, plus interest to the utility company's customers.

The acquisition of small utilities can lead to more efficient use of resources. According to the IURC's 2014 Water Utility Resource Report, the best opportunities for acquisition are particularly for water utilities serving less than 1,200 customers. Of the 412 water utilities that submitted customer data, 297 serve fewer than 1,200 customers. Also, the IURC observed that there is a trend concerning the acquisition of small utilities, and they proposed this trend could be due to increased regulations and costs.

Currently, the IURC has the authority to adjust a utility's rate of return as part of their general rate-making authority. The utility would still have the obligation to provide sufficient evidence in the record to warrant an increase to the rate of return.

The rate for both the URT and USUT is 1.4%. The URT is calculated on the gross receipts of all entities providing the retail sale of utility services in Indiana. The USUT is imposed on the retail consumption of utility services in Indiana. Both the URT and USUT are deposited in the state General Fund. Sales tax revenue is deposited in the state General Fund (98.848%), the Motor Vehicle Highway Account (1%), the Commuter Rail Service Fund (0.123%), and the Industrial Rail Service Fund (0.029%).

Explanation of Local Expenditures:

Explanation of Local Revenues: The bill's definition of utility company includes municipally owned water or wastewater utilities and regional sewer or water districts. The provisions in this bill could impact the rates and charges of these utilities.

Also, if utility rates are affected as a result of this bill and determinations made by the IURC in independent proceedings, there could also be a change in local revenues to the extent that a local unit receives distributions from sales tax revenue.

State Agencies Affected: Indiana Utility Regulatory Commission.

Local Agencies Affected: Municipally owned water or wastewater utilities; Regional sewer or water

districts.

Information Sources: Andrew Mapes, Indiana Utility Regulatory Commission; Indiana Utility Regulatory Commission, *Water Utility Resource Report*, 2014.

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