



HOUSE COMMITTEE ON APPROPRIATIONS

FISCAL NOTE

HOUSE BILL NO. 1326

PRINTERS NO. 2396

PRIME SPONSOR: Godshall

COST / (SAVINGS)

FUND	FY 2015/16	FY 2016/17
General Fund	\$0	\$0

SUMMARY: House Bill 1326, Printer's Number 2396, amends Title 66 to establish a process for the determination of the fair market value of an acquired water or wastewater system.

ANALYSIS: This bill amends Title 66 (Public Utilities) to create a new section establishing a process to be used, at the discretion of the buying and selling water and wastewater utilities, to determine the fair market value of the selling utility for ratemaking purposes.

The valuation process used to determine the fair market value of the selling utility would be based upon the agreement of both the acquiring public utility and the selling utility and would require the following: the commission will maintain a list of utility valuation experts from which an acquiring utility or entity and selling utility will choose; appraisals shall be conducted by utility valuation experts; appraisal process shall be conducted in compliance with the Uniform Standards of Professional Appraisal Practice; value of tangible assets of selling utility will be determined through an assessment by a licensed engineer; and the appraisal must be completed within 60 days of execution of the service contract.

Upon entry of a commission order approving the acquisition, the ratemaking rate base of the selling utility shall be incorporated into the rate base of the acquiring public utility. The ratemaking base of the selling utility shall be the lesser of the purchase price negotiated by the acquiring public utility or the fair market value of the selling utility.

The buying utility shall include all of the following information in its application seeking approval of the acquisition filed with the Public Utility Commission, including copies of the two appraisals; the purchase price of the selling utility, as agreed to by the buying and selling utilities; the recommended ratemaking rate base of the selling utility; the transaction and closing costs incurred by the buying utility that will be included in its ratemaking rate base; a tariff containing the rates or rate division of the buying utility into which the selling utility will be incorporated.

If the commission approves the acquisition, its order shall include: the ratemaking rate base of the selling utility and the approved rates or rate division of the buying utility that will be

applied to the acquired service territory. The rates approved by the commission shall remain in effect until completion of the buying utility's next base rate case proceeding.

Any post-acquisition improvements made by the buying utility that are not recovered through a distribution system improvement charge shall be eligible for inclusion in allowance of funds used during construction. The buying utility may collect allowance of funds used during construction through rates until its next base rate case proceeding or four years, whichever is earlier. Post-acquisition improvements shall not be subject to depreciation from the date the expense was incurred until the earlier of 4 years or the buying utility's next base rate case proceeding.

The bill also establishes new definitions related to this new process including, acquiring public utility; allowance of funds used during construction; fair market value; ratemaking rate base; selling utility; and utility valuation expert.

This legislation would take effect in 60 days upon enactment.

FISCAL IMPACT: Enactment of this legislation will have no adverse impact on Commonwealth funds. All administrative costs and duties of the Public Utility Commission outlined in the legislation would be covered under existing operations.

PREPARED BY: Jeffrey Clukey
House Appropriations Committee (R)

DATE: October 20, 2015

Estimates are calculated using the best information available. Actual costs and revenue impact incurred may vary from estimates.