



SIERRA CLUB

LONE STAR CHAPTER

To: The Honorable Dr. Charles Schwertner, Chair
Members, Senate Committee on Business and Commerce
Re: SB 1110 Relating to municipal utilities
From: Cyrus Reed, Sierra Club, cyrus.reed@sierraclub.org, 512-888-9991

March 21, 2023

Dear Senator Schwertner and members,

The Sierra Club Lone Star Chapter opposes SB 1110, which would prevent a city from transferring revenue to their general fund from an MOU if the transfer would result in a deficit for the utility or a rate increase for customers. S.B. 1110 also prevents MOUs from including these general fund transfers as part of the MOU's cost of service study. While we understand that the committee substitute specifically removes water and other non-electric utilities, we believe that the bill is an inappropriate change in policy which will impact the ability of 70+ the municipally-owned utilities to run efficiently and effectively and free from interference by the state.

The Lone Star Chapter of the Sierra Club has local groups operating in Austin - which has a municipally-owned utility in Austin Energy - San Antonio - which has a municipally-owned utility in CPS Energy - as well as a local group in the Dallas area, which includes members in Garland, Denton and other municipally-owned utilities. Our Lower Valley Group has members in the Brownsville area, which has a municipally-owned utility, while our Houston group includes the Bryan-College Station area, which covers both Bryan Texas Utilities (BTU) and the College Station MOU. Our members and staff have been frequent participants at board, committee and city council meetings involving these utilities and their rates.

It is the responsibility of the Board of Directors of local utilities and in some cases city councils to determine rates, the level of general transfers, and when or if to allow transfers

- even if the utility is running a deficit - and to what extent to include the GT into a cost of service study.

You Can't Determine Cost of Service without taking Into Account the General Transfer

The Sierra Club has participated as an intervenor in the last two Austin Energy rate cases. Austin Energy's current policy is to provide a general transfer of 12 percent of the actual revenues minus pass-through charges (the fuel charges, customer benefit fund and street lighting), meaning in reality the GT is about 8 percent of total revenues.

The more than a dozen interest groups and stakeholders that participated in the latest rate case all carefully looked at Austin Energy assumptions in asking City Council for a base rate increase, including their assumptions on calculating the general transfer, and in fact a slight downward adjustment was made by City Council.

We believe that the rate process worked well, and it would have been inappropriate to separate the general transfer policy from the rate case discussion. Indeed, the GT is essentially the profits from the utility to help support the city.

Inappropriate to say an MOU can't raise rates just because the transfer would result in a deficit

We would never say that a private utility can't raise rates just because it is expecting to earn profits. In fact, we expect private utilities to ask for a rate increase even if they could have avoided a rate increase by cutting out their profit. Saying a city utility can't raise rates just because they transfer some of their revenues to the general transfer would severely hamper cities' ability to run a good utility since they would essentially be forced to starve the utility.

What Sierra Club would support

As we have stated repeatedly, we are in favor of more transparency, better reporting by municipal utilities, and best practices for rate making, including required public hearings, meetings, and the potential for interventions as parties in mini-rate cases. As an example, we could require municipal utilities to issue a report to the PUCT anytime they plan to set new rates, and we also could require them to put their general transfer policy on their website or in a required report.

We do believe that ratepayers should have the opportunity to question or oppose rates set by local utilities, get information about how they set their rates, and would even support the potential for some guide rails by the legislature (such as notice and public meetings). However, SB 1110 is unfair and ultimately holds municipal utilities to a different standard than private utilities.

We would be happy to work with the Committee and other stakeholders on required reporting of rates and the development of best practices but believe this legislation goes much too far, and interferes with local control.