

1 INTERIM STUDY PROPOSAL 2015-038

2 State of Arkansas

As Engrossed: S3/16/15

3 90th General Assembly

A Bill

4 Regular Session, 2015

SENATE BILL 994

5
6 By: Senator Caldwell

7 Filed with: Senate Committee on Agriculture, Forestry, and Economic Development
8 pursuant to A.C.A. §10-3-217.

For An Act To Be Entitled

9
10 AN ACT TO PROMOTE RURAL ECONOMIC DEVELOPMENT AND
11 NATURAL GAS INFRASTRUCTURE EXPANSION; AND FOR OTHER
12 PURPOSES.

Subtitle

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15 TO PROMOTE RURAL ECONOMIC DEVELOPMENT AND
16 NATURAL GAS INFRASTRUCTURE EXPANSION.
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20 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF ARKANSAS:

21
22 *SECTION 1. Arkansas Code § 23-3-601 is amended to read as follows:*

23 *23-3-601. Purpose – Petition for certificate.*

24 *(a)(1) The General Assembly finds that the proportion of the state's*
25 *population that is without access to service by a ~~natural~~ gas utility exceeds*
26 *the proportion of the population that is without access to telephone or*
27 *electric utility service. Therefore, the General Assembly declares it to be*
28 *the intent and purpose of this subchapter to increase only the availability*
29 *of natural gas through the procedures provided in this subchapter and not to*
30 *make the procedures available to electric or telephone utilities.*

31 *(2) The amount of the surcharge to be added to the gas utility's*
32 *rate shall be calculated so as to produce the annual revenues equal to the*
33 *additional annualized revenue requirement to which the gas utility would be*
34 *entitled had the excess expenditures made for the purposes set forth in*
35 *subdivision (a)(1) of this section been included in the gas utility's most*
36 *recent rate determination by the commission.*

1 (b) A gas utility may at any time petition the commission for a
 2 certificate of extension project. By its petition, the gas utility requests
 3 commission authorization to commence an extension project, to expend funds on
 4 the project, and to concurrently seek commission approval of changes in rates
 5 and surcharges sufficient to recover, at the time the plant goes into
 6 service, the excess expenditures arising out of the certificated extension
 7 projects. A petition for a certificate shall provide information about the
 8 proposed extension project including, without limitation, the following:

9 (1) An estimate of the cost of the extension project broken down
 10 into at least labor, materials, and overhead;

11 (2) A schedule of estimated completion dates;

12 (3) A brief description of the physical nature of the
 13 facilities, including pipe diameter and length of the extension in feet or
 14 miles;

15 (4) Estimated sales volumes, estimated number and types of
 16 customers, growth rates, and expected revenues; ~~and~~

17 (5) A calculation showing the amount of excess expenditures the
 18 gas utility expects to incur; and

19 (6) An estimate of surcharge rates for each class of customer
 20 consistent with the most recent determination by the commission in its order
 21 addressing the gas utility's most recent application for a general change or
 22 modification in its rates and charges.

23
 24 SECTION 2. Arkansas Code § 23-3-602(3), concerning the definition of
 25 "cost-of-service recovery", is repealed.

26 ~~(3) "Cost-of-service recovery" means the method by which the~~
 27 ~~commission computes the change in rates necessary for the gas utility to~~
 28 ~~recover the cost of that portion of the excess expenditures not recovered~~
 29 ~~through the surcharge. Traditional cost-of-service principles shall be~~
 30 ~~followed in adjusting rates when the cost-of-service recovery method is used~~
 31 ~~to recover the cost of excess expenditures. The allocation of class~~
 32 ~~responsibility for payment of the excess expenditures under the cost-of-~~
 33 ~~service recovery method shall be in accordance with the most recent cost-of-~~
 34 ~~service study approved for the applicant gas utility;~~

1 SECTION 3. Arkansas Code § 23-3-602(7), concerning the definition of
2 "surcharge" is amended to read as follows:

3 (7) "Surcharge" means a charge which the commission may
4 authorize a gas utility to impose on ~~those~~ its customers ~~who directly benefit~~
5 ~~from extensions funded by excess expenditures. The surcharge may recover the~~
6 ~~entire excess expenditure or a portion thereof, as the commission shall order~~
7 to recover, at the time the plant goes into service, the excess expenditures
8 arising out of the certificated extension projects. The amount of the
9 surcharge to be added to the gas utility's rate shall be calculated so as to
10 produce the annual revenues equal to the additional annualized revenue
11 requirement to which the gas utility would be entitled had the excess
12 expenditures made for the purposes set forth in subdivision (a)(1) of this
13 section been included in the gas utility's most recent rate determination by
14 the commission.

15
16 SECTION 4. Arkansas Code § 23-3-603 is amended to read as follows:

17 23-3-603. Grant of certificate generally.

18 The Arkansas Public Service Commission shall grant a certificate if it
19 finds that the proposed extension project is of economic benefit to the gas
20 utility and its ratepayers and is in the public interest. Within the body of
21 ~~the order, the commission shall apportion the future recovery of the cost of~~
22 ~~the excess expenditures between the surcharge and cost of service recovery,~~
23 ~~in whatever proportions or percentages the commission finds reasonable, from~~
24 ~~zero to one hundred percent (0—100%), inclusive. Once the certificate has~~
25 ~~been granted, including the approval of the amount and allocation of rates~~
26 ~~and surcharges, the gas utility may begin construction and may expend funds~~
27 ~~on the certificated extension project.~~

28
29 SECTION 5. Arkansas Code § 23-3-604 is amended to read as follows:

30 23-3-604. Rates and tariffs.

31 (a)(1) Once a certificated extension is placed into service and is
32 used and useful, the gas utility may collect the ~~rates and tariffs which have~~
33 ~~been previously approved by the Arkansas Public Service Commission and which~~
34 ~~reflect the apportionment of recovery of the cost of the excess expenditures~~
35 ~~between the surcharge and cost of service recovery methods as ordered by~~
36 the commission excess expenditures through a surcharge approved by the

1 Arkansas Public Service Commission. The tariff and rate filing made at the
 2 time of the certificate application shall include estimated excess
 3 expenditures upon which the commission may grant the certificate.

4 (2) The commission may subsequently modify the previously
 5 approved surcharge rates ~~and tariffs~~ in any reasonable manner ~~if the~~ in the
 6 event that actual total costs and excess expenditures differ significantly
 7 from the estimated total costs and excess expenditures.

8 (3) In the event that actual total costs and excess expenditures
 9 significantly exceed the estimated costs and excess expenditures, and the
 10 difference is caused by imprudence or other unsatisfactory causes, the
 11 commission may disallow recovery of a portion of the actual excess
 12 expenditures in the approved rates.

13 ~~(b) The surcharge shall be recovered only from those customers or~~
 14 ~~accounts that receive service as a direct result of the certificated~~
 15 ~~extension. The surcharge shall recover its proportion of the capitalized~~
 16 ~~excess expenditures, plus carrying costs. Surcharged amounts shall be treated~~
 17 ~~for ratemaking purposes as customer contributions in aid of construction and~~
 18 ~~shall not be added to the rate base upon which a return is earned~~ Surcharge
 19 rates implemented under this section shall remain effective until the
 20 implementation of new rate schedules in connection with the next general rate
 21 filing of the gas utility wherein such extension project investments can be
 22 included in the gas utility's base rate schedules.

23 ~~(c) Those costs and expenses to be recovered under the cost-of-service~~
 24 ~~recovery method shall be recovered in the same manner as they would had they~~
 25 ~~been elements of a general rate application. Traditional cost-of-service~~
 26 ~~principles shall be utilized in adjusting rates to recover the cost of excess~~
 27 ~~expenditures recovered under cost-of-service recovery. Allocation of class~~
 28 ~~responsibility for recovery of the cost of the excess expenditures shall be~~
 29 ~~in accordance with the gas utility's most recently approved cost-of-service~~
 30 ~~study or in accordance with a reasonable cost-of-service approach which the~~
 31 ~~commission shall find acceptable~~ The surcharge rates for each class of
 32 customer shall be determined consistent with the most recent determination by
 33 the commission in its order addressing the gas utility's most recent
 34 application for a general change or modification in its rates and charges.

35 ~~(d) Amounts recoverable under the cost-of-service recovery method~~
 36 ~~which remain outstanding shall be rolled into the gas utility's next general~~

1 ~~rate application. Recovery of these outstanding expenditures shall be made~~
 2 ~~within the rate approved as a result of the application for the certificate~~
 3 ~~and corresponding approval of rates.~~

4
 5 SECTION 6. Arkansas Code § 23-3-605 is amended to read as follows:

6 23-3-605. Conditions, limitations on grant of certificates.

7 Certificates shall be granted under this subchapter ~~pursuant to~~ under
 8 the following provisions and conditions:

9 (1) Only proposed extension projects shall be eligible for
 10 recovery of the cost of excess expenditures under this subchapter. Proposed
 11 extension projects are those for which neither actual construction activity
 12 has begun nor expenditures made, other than for planning the project, at the
 13 time the petition for the certificate is initially filed with the Arkansas
 14 Public Service Commission;

15 (2) Certificates shall be granted under this subchapter only for
 16 proposed extension projects which will serve areas not served by any gas
 17 utility at the time of the filing of the petition for the certificate;

18 (3) Certificates shall be granted only if the commission
 19 determines the extension project is beneficial to the ratepayers of the gas
 20 utility and to the gas utility itself;

21 (4) Certificates shall not be granted under this subchapter to
 22 recover ~~costs~~ excess expenditures incurred in replacing existing pipelines,
 23 equipment, or plants, unless such replacement is necessary for adequate gas
 24 supply for the proposed extension project;

25 ~~(4)(5)~~ (5) Where the commission has granted more than one (1)
 26 certificate to a gas utility, the commission may determine prospectively the
 27 sequence in which the gas utility shall commence work on pending projects
 28 based on whatever reasonable criteria it ~~shall develop~~ develops. However,
 29 once construction has begun on any given project, the commission
 30 determination shall not serve to postpone or defer construction; and

31 ~~(5)(6)~~ (6) There shall be a limitation on the total annual dollar
 32 recovery of excess expenditures to be recovered ~~pursuant to~~ under § 23-3-604
 33 through rates or surcharges ~~resulting from proceedings other than general~~
 34 ~~rate cases. The limitation shall be imposed regardless of the number of~~
 35 ~~certificates granted to, or projects to be completed by, a gas utility. The~~
 36 limitation shall be a dollar amount which equals one half of one percent

1 ~~(0.5%) of the difference between the gas utility's recorded gross plant at~~
2 ~~original cost less recorded accumulated depreciation reserves gas utility's~~
3 ~~gross plant at original cost used in determining the gas utility's most~~
4 ~~recent application for a general change in rates and charges. "Gross As used~~
5 ~~in this subdivision (6), "gross plant" shall~~ does ~~not~~ include construction
6 work in progress or portions of certificated projects currently ~~receiving~~
7 ~~cost of service recovery treatment~~ included in the gas utility's base rates.

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9 /s/Caldwell

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12 Referred by the Arkansas Senate

13 Prepared by: VJF
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