This Bill Analysis reflects the contents of the bill as it was presented in committee.

HOUSE BILL 332: Natural Gas Econ. Dev. Infrastructure

2015-2016 General Assembly

Committee:	House Finance	**Date:**	April 16, 2015
Introduced by:	Reps. Hager, Collins, McElraft, Saine	**Prepared by:**	Heather Fennell
Analysis of:	PCS to Second Edition H332-CSTD-12		Committee Counsel

***SUMMARY:** The PCS to House Bill 332 would allow natural gas local distribution companies to recover the infeasible portion of a line extension through its rates for line extensions to companies that will invest at least $200 million in improvements and employ at least 1,500 employees.*

The PCS makes two clarifying changes to the bill and provides a cap on the total amount that can be recovered by all natural gas local distribution companies for these line extensions.

[As introduced, this bill was identical to S628, as introduced by Sens. Brock, Rucho, B. Jackson, which is currently in Rules and Operations of the Senate.]

CURRENT LAW: The rates for natural gas local distribution companies (LDCs) are regulated by the Utilities Commission under G.S. 62-133 and 62-133.4. The rates include the wholesale cost of gas and the "margin." The margin amount includes the prudently incurred costs for delivering the gas sold and a rate of return on the capital investment made by the company. The wholesale cost of the natural gas distributed is passed through directly to the customer. Natural gas local distribution companies do not profit from fluctuations in the wholesale price of natural gas.

When service of natural gas is extended to a new customer, the LDC will calculate what portion of the cost of the line extension will be recovered through the margin generated by the increase in gas distributed through the line extension. The cost of the line extension that would be recovered through the margin is considered "feasible" where the cost of the line extension that would not be recovered through the margin is considered "infeasible." The customer requesting the line extension must cover the infeasible costs of the line extension.

The General Assembly has created several economic development tools to provide funding to expand natural gas for job creation:

- Industrial Development Fund Utility Account. Funds can be used to construct or improve gas lines in economically distressed counties.
- Site Infrastructure Development Fund. Grants authorized for site development for businesses that will invest $100 million and employ 100 new employees.
- Expanded Gas Products Service to Agriculture Fund. In Section 15.13 of S.L. 2014-100 the General Assembly allocated $5 million for grants to expand natural gas service to agricultural projects under G.S. 143B-437.020.

BILL ANALYSIS: The PCS for House Bill 332 would allow a LDC to recover the infeasible portion of natural gas infrastructure to eligible projects in rates through an annual rider.

Commerce Approval: The Department of Commerce must first determine that the natural gas infrastructure is for an eligible project. To be eligible, a project must meet all of the following conditions:

- The project will provide opportunities for natural gas usage, jobs and other economic development benefits.
- The business has invested or intends to invest at least $200 million in private funds for real and personal property.
- The business will employ or intends to employ at least 1,500 full time employees.

The business must also meet a wage standard of 110% of the average wage in the county where the project is located, the business must pay at least 50% of the premiums for health insurance coverage for its employees, must not have any safety and health program violations, and must not have a disqualifying environmental event as determined by the Department of Environment and Natural Resources.

Utilities Commission: Costs for natural gas infrastructure may be recovered in a rider by an LDC for infrastructure related to projects approved by the Department of Commerce, if the Commission determines the project meets all of the following conditions:

- The project is located in an area where the natural gas infrastructure for the project is not economically feasible.
- The developer of the project, the prospective customer, or the occupant of the project provides a binding commitment that the project will use the natural gas service for at least 10 years.
- The projected margin generated by the eligible project will not cover the cost of the natural gas infrastructure.

Once approved, the economically infeasible costs of the infrastructure will be recovered in a rider. The costs recovered in the rider will include the costs normally recovered for infrastructure, including the planning and development costs, construction costs, financing costs, depreciation, and property taxes.

The Commission is directed to adopt rules to implement the rider mechanism. The rider may be allowed on an annual or semiannual basis, and will be subject to periodic reconciliation. The rider will terminate when the costs are fully recovered, or with the LDC's next general rate case, whichever occurs first. A LDC may not invest more than $25 million a year in infrastructure development costs, and the amount recovered in the rider may not exceed 5% of the margin revenues approved in the last rate case of the LDC. The total amount of infrastructure costs that can be recovered by all LDC's in the state is limited to $75 million.

EFFECTIVE DATE: This act is effective when it becomes law and expires July 1, 2020.