BILL ANALYSIS

H.B. 711
By: Murphy
State Affairs
Committee Report (Unamended)

BACKGROUND AND PURPOSE

Interested parties assert that a certain statutory provision relating to the computation of consolidated income tax rates for an electric utility has been interpreted to require the regulatory authority to implement a consolidated tax savings adjustment in rate proceedings involving an electric utility that is part of an affiliated group eligible to file a federal consolidated income tax return. The parties assert that this provision currently allows the commingling of electric utility and nonelectric utility costs and that such commingling violates legislative intent. The parties further assert that the activities of an electric utility's affiliates should not affect the utility service provided to ratepayers or the rates that they pay for such service and suggest that an electric utility's rates should be set in the manner of gas utilities. The parties predict that, as a result, the income, gains, losses, and deductions of an electric utility's affiliates, including the federal income tax consequences of such income, gains, losses, and deductions, will not affect the electric utility's cost of service and rates charged for utility service.

H.B. 711 seeks to provide that electric utility rates reflect income tax expense calculated on a standalone basis using only the electric utility's income and expenses and the income tax rates that would apply to the utility's standalone net income.

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

H.B. 711 amends the Utilities Code, in a provision relating to the computation of an electric utility's income taxes, to require, on the condition that an expense is allowed to be included in utility rates or an investment is included in the utility rate base, that the related income tax benefit be included in the computation of income tax expense to reduce the rates. The bill prohibits the related income tax benefit to be included in the computation of income tax expense to reduce the rates if an expense is not allowed to be included in utility rates or an investment is not included in the utility rate base. The bill requires the income tax expense of an electric utility to be computed using the statutory income tax rates. The bill removes a provision requiring an electric utility's income taxes to be computed as though a consolidated return had been filed and the utility had realized its fair share of the savings resulting from that return if the utility is a member of an affiliated group eligible to file a consolidated income tax return and it is advantageous to the utility to do so unless it is shown to the satisfaction of the regulatory authority that it was reasonable to choose not to consolidate returns.

EFFECTIVE DATE

September 1, 2013.