

1-1 By: Thompson of Brazoria (Senate Sponsor - Nichols) H.B. No. 2774
1-2 (In the Senate - Received from the House May 1, 2023;
1-3 May 2, 2023, read first time and referred to Committee on Water,
1-4 Agriculture & Rural Affairs; May 9, 2023, reported favorably by the
1-5 following vote: Yeas 8, Nays 0; May 9, 2023, sent to printer.)

1-6 COMMITTEE VOTE

1-7	Yea	Nay	Absent	PNV
1-8	X			
1-9	X			
1-10	X			
1-11	X			
1-12			X	
1-13	X			
1-14	X			
1-15	X			
1-16	X			

1-17 A BILL TO BE ENTITLED
1-18 AN ACT

1-19 relating to the treatment of income tax expenses in rate
1-20 proceedings for water and sewer utilities.

1-21 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

1-22 SECTION 1. Section 13.185(f), Water Code, is amended to
1-23 read as follows:

1-24 (f) If an expense is allowed to be included in utility rates
1-25 or an investment is included in the utility rate base, the related
1-26 income tax benefit must be included in the computation of income tax
1-27 expense to reduce the rates. If an expense is not allowed to be
1-28 included in utility rates or an investment is not included in the
1-29 utility rate base, the related income tax benefit may not be
1-30 included in the computation of income tax expense to reduce the
1-31 rates. The income tax expense shall be computed using the statutory
1-32 income tax rates. The amount of income tax that a consolidated
1-33 group of which a utility is a member saves, because the consolidated
1-34 return eliminates the intercompany profit on purchases by the
1-35 utility from an affiliate, shall be applied to reduce the cost of
1-36 the property or service purchased from the affiliate. [If the
1-37 utility is a member of an affiliated group that is eligible to file
1-38 a consolidated income tax return and if it is advantageous to the
1-39 utility to do so, income taxes shall be computed as though a
1-40 consolidated return had been filed and the utility had realized its
1-41 fair share of the savings resulting from the consolidated return,
1-42 unless it is shown to the satisfaction of the regulatory authority
1-43 that it was reasonable to choose not to consolidate returns. The
1-44 amounts of income taxes saved by a consolidated group of which a
1-45 utility is a member due to the elimination in the consolidated
1-46 return of the intercompany profit on purchases by the utility from
1-47 an affiliate shall be applied to reduce the cost of those
1-48 purchases.] The investment tax credit allowed against federal
1-49 income taxes to the extent retained by the utility shall be applied
1-50 as a reduction in the rate-based contribution of the assets to which
1-51 the credit applies to the extent and at the rate as allowed by the
1-52 Internal Revenue Code.

1-53 SECTION 2. The changes in law made by this Act apply only to
1-54 a rate proceeding under Chapter 13, Water Code, that begins on or
1-55 after the effective date of this Act. A rate proceeding that begins
1-56 before the effective date of this Act is governed by the law in
1-57 effect on the date the rate proceeding began, and the former law is
1-58 continued in effect for that purpose.

1-59 SECTION 3. This Act takes effect September 1, 2023.

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