

SUBJECT: Allowing PUC determination of affiliate costs in computing utility rates

COMMITTEE: Regulated Industries — favorable, without amendment

VOTE: 6 ayes — P. King, Hunter, Baxter, R. Cook, Crabb, Hartnett

0 nays

1 absent — Turner

SENATE VOTE: On final passage, April 21 — 31-0, on Local and Uncontested Calendar.

WITNESSES: For — None

Against — None

On — Paul Hudson, Public Utility Commission

BACKGROUND: Utilities Code, sec. 11.003(2) defines an “affiliate” as a corporation or person who owns at least 5 percent of the voting securities in a public utility or a person who is an officer of a public utility. Affiliate is further defined as a person who exerts influence over a public utility, as determined by the Public Utility Commission (PUC).

Utilities Code, sec. 36.058 prevents the PUC from allowing as an expense a payment to an affiliate for the cost of a service in its determination of a utility’s rates. An exception to this prohibition is made if the PUC finds that the payment is necessary. A payment is necessary if the price is not higher than the prices charged by the supplying affiliate to its other divisions or to another person.

DIGEST: SB 1668 stipulates that if the PUC found an affiliate expense to be unreasonable, the commission would determine the reasonable level of the expense and include that expense in the utility’s cost of service.

The bill would take effect September 1, 2005.

SUPPORTERS SB 1668 would allow the PUC to determine a reasonable level of expenses

SAY: that should be included in its determination of a utility's rates, rather than disallowing 100 percent of costs deemed to be unreasonable. Transactions among affiliates increasingly are used by utilities instead of stand-alone expenses. These costs allow a utility to avoid duplication of services, resulting in reduced costs for utilities and consumers.

SB 1668 would improve the PUC's ability to accurately determine costs accrued by a utility. The PUC would be able to determine which affiliate costs should be allowable, an appropriate measure to consider costs that are necessary and unavoidable.

OPPONENTS SAY: Current law already allows the PUC to include payments to an affiliate if the payment is reasonable and necessary. Allowing the PUC to include additional payments could lead to higher rates.