

BILL ANALYSIS

C.S.S.B. 1447
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Pensions & Investments
Committee Report (Substituted)

BACKGROUND AND PURPOSE

When integrated utilities were unbundled on January 1, 2002, the Public Utility Commission (PUC) established rates for the transmission and distribution utilities at a point in time when annual costs for pension and retiree health care benefits were relatively low. Currently, these expenses are more volatile due to the investment market, growing obligations resulting from increased life spans, and dramatic increases in health care expenses.

Legacy employees who devoted most of their careers to the former regulated utility were unintentionally impacted by electric utility restructuring. As electric companies restructured they shifted the pension and retiree health care costs associated with service by non-transmission and distribution function employees to the deregulated entity, when it is appropriate for the costs associated with the employees' years of service to remain with the regulated utility.

As proposed, CSSB1447 allows electric utilities to establish pension and retiree medical expense reserve accounts. Once the pension and retiree medical expense reserve accounts are established, the variation in pension and retiree health care expenses will be captured and reviewed by the PUC for inclusion in rates during subsequent rate proceedings. This will allow electric utilities to manage the challenges of volatile and escalating pension and retiree health care expenses.

The bill also addresses the fair treatment of legacy employees by clarifying that the pension and retiree health care costs that arose from service to the integrated electric utility are proper expenses of the transmission and distribution utility.

RULEMAKING AUTHORITY

This bill does not expressly grant any additional rulemaking authority to a state officer, institution, or agency.

ANALYSIS

SECTION 1. Amends Chapter 36, Utilities Code, by adding Section 36.065, as follows:

Sec. 36.065. PENSION AND OTHER POST EMPLOYMENT BENEFITS.

(a) Sets forth required benefit expenses for the regulatory authority to include in the rates of an electric utility. Requires that the portion of certain personnel's pension and other post employment benefit expense that arises from their respective service with a predecessor integrated electric utility be included in rates.

(b) Authorizes an electric utility, effective January 1, 2005, to establish one or more reserve accounts for pension and other post employment benefits expenses and requires the account record to contain certain information.

(c) Sets forth the terms of a surplus and shortage in relation to the reserve accounts.

(d) Requires the regulatory authority to review the accounts and perform tasks as required in a subsequent rate proceeding.

SECTION 2. Effective date: upon passage if it receives a two-thirds vote from all the members elected to each house or September 1, 2005.

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COMPARISON OF ORIGINAL TO SUBSTITUTE

The section relating to establishing reserve accounts, SB1447 compares the pension and other post employment benefits expenses approved in the last rate order with the current year's pension and other post employment benefits expenses. CSSB1447 adds a provision to reflect that if the pension and other post employment benefits expense cannot be determined from the last rate order, then, as an alternative, it is permissible to compare the pension and other post employment expenses recorded on the company's books for the year following the rate order with the current year's pension and other post employment benefits.

CSSB1447 clarifies that that Texas Public Utility Commission has authority to make sure that pension and other post employment benefits expenses attributable to service in accordance with generally accepted accounting principles.

CSSB1447 also makes organizational changes that do not have substantive effect.