BILL ANALYSIS

S.B. 403
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State Affairs
Committee Report (Unamended)

BACKGROUND AND PURPOSE

The cost of providing pensions and other postemployment benefits can significantly increase from year to year. Such increases in pension and retiree health care expenses can force gas utilities to file more frequent rate cases, at a cost to the ratepayer. S.B. 403 seeks to help gas utilities to better manage the challenges of volatile and escalating pension and retiree health care expenses by allowing a gas utility to establish one or more reserve accounts for expenses related to pension and other postemployment benefits and by requiring a utility that establishes one or more reserves to record and review any difference between the annual amount of pension and other postemployment benefits approved and included in the utility's then current rates.

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

S.B. 403 amends the Utilities Code to require a regulatory authority, in establishing a gas utility's rates, to allow recovery of the gas utility's costs of pensions and other postemployment benefits, as determined by actuarial or other similar studies in accordance with generally accepted accounting principles, in amounts the regulatory authority finds reasonable and necessary.

S.B. 403 requires a gas utility, if the utility establishes one or more reserve accounts for the purpose of tracking changes in the costs of pensions and other postemployment benefits, to record periodically in a reserve account any difference between the annual amount of pension and other postemployment benefits approved and included in the utility's then current rates or, if that annual amount cannot be determined from the regulatory authority's order, the amount recorded for pension and other postemployment benefits under generally accepted accounting principles during the first year that rates from the gas utility's last general rate proceeding were in effect and the annual amount of costs of pensions and other postemployment benefits as determined by actuarial or other similar studies that would otherwise be recorded by the gas utility were this provision not applicable.

S.B. 403 requires a gas utility to establish separate reserve accounts for pensions and for other postemployment benefits and to apply the same methodology to allocate pension and other postemployment benefits between capital and expense as in the gas utility's last rate case. The bill establishes that a surplus in a reserve account exists if the annual amount of pension and other postemployment benefits approved and included in the utility's then current rates or recorded during the first year that rates from the last general rate proceeding were in effect is greater than the annual amount of costs of pension and other postemployment benefits as determined by actuarial or other similar studies that otherwise would be recorded by the gas utility. The bill establishes that a shortage exists if the annual amount approved or recorded is less than the amount determined by such actuarial or other similar studies.

S.B. 403 requires the regulatory authority at a subsequent general rate proceeding, if the gas utility establishes reserve accounts for the costs of pensions and other postemployment benefits, to review the amounts recorded to each reserve account to determine whether the amounts are reasonable and necessary, to determine whether each reserve account has a surplus or shortage, and to subtract any surplus from or add any shortage to the gas utility's rate base with the surplus or shortage amortized over a reasonable time.

S.B. 403 makes its provisions relating to the establishment of reserve accounts, the determination of account surpluses or shortages, and regulatory authority review of such accounts applicable only in relation to a reserve account established by a gas utility on or after January 1, 2012.

EFFECTIVE DATE

On passage, or, if the bill does not receive the necessary vote, September 1, 2011.