

# Rate Case Auditing – Part 1

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INSTITUTE OF PUBLIC UTILITIES | MSU



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Revised 10/30/2023*

# Course Information

- **Course Overview** – In this course, attendees will learn about regulatory auditing. It covers the foundation of auditing in general, and approaches and methods unique to regulatory accounting. This course also covers the regulatory challenges that are faced by auditors in the collection and analysis of public utility financial and operating data. This course is intended for students with an interest in regulatory audits their purpose and use by regulatory agencies.
- **Intended Audience** – Accountants and analyst that need a broader understanding of the process of regulatory auditing.
- **Learning Objectives** – After this course the student will have a foundational understanding of the foundations of general auditing and how distinctive approaches and techniques are used when reviewing the books and records of an economically regulated entity.
- **Course Level** – Advanced
- **Course Prerequisites** – A working understanding of accounting and regulatory reporting standards and report forms.
- **Advance Prep** – None
- **Delivery Method** – Online Group Live
- **NASBA National Registry Statement** -- The Institute of Public Utilities is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors. State Boards of Accountancy have the final authority on the acceptance of individual course for CPE credit. Complaints regarding registered sponsors may be submitted to the National Registry of CPE Sponsors through its website: [www.nasbaregistry.org](http://www.nasbaregistry.org).
- **This course is eligible for CPE credit.**



# Auditing

: auditing

financial examination of (an individual's or organization's accounts to determine if they "have their accounts audited")

act, examine, survey, go through, scrutinize, check, probe, vet, inspect, assess, verify, appraise, evaluate, review, analyze, study; Monitor

ICAN

# Auditing is defined as:

*A systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users.*

**Auditing Concepts Committee, “Report of the Committee on Basic Auditing Concepts,”**



# Auditing is defined as:

*A systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users.*

*A systematic process:* A logical, structured and organized series of steps or systematic method.

# Auditing is defined as:

*A systematic process of **objectively obtaining and evaluating evidence** regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users.*

***Objectively obtaining and evaluating evidence:*** A process that acquires and reviews evidence and support for a filing without bias or prejudice for or against the entity making the request.

# Auditing is defined as:

*A systematic process of objectively obtaining and evaluating evidence **regarding assertions about economic actions and events** to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users.*

*Regarding assertions about economic actions and events:* Recognizes that a rate case is about the identifying, measuring, and the communication of complex financial and economic information.

# Auditing is defined as:

*A systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events **to ascertain the degree of correspondence between those assertions and established criteria** and communicating the results to interested users.*

*To ascertain the degree of correspondence between those assertions and established criteria:* Requires an auditor to establish a relationship between what is filed and the audit evidence and conclusions, which can be either quantitative, e.g., the correct mathematical total for an account or qualitative, e.g., the proper application of regulatory policy.



# Auditing is defined as:

*A systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and **communicating the results to interested users.***

*Communicating the results to interested users.* In the regulatory arena this can mean the preparation of testimony with supporting exhibits and workpapers.

# Auditing

1. Certified Financial Audit
2. Regulatory Audit
3. Performance Audits
4. Quality Audits
5. Project Management
6. CAM\* Audits
7. Management Audits
8. Forensic Audits

\* Cost Adjustment Mechanism

There are three different types of CPA issued financial statements:

- Compilation
- Review
- Certified Audit



# 1<sup>st</sup> CPA Provided Financial Statements Type Compilation

- CPA does not have to be independent.
- Compiles the financial statements from records provided by owners.
- Required to follow rules promulgated by AICPA - Intended for use by lenders and outside parties without requiring any level of assurance on the accuracy of financial statements.
- CPA issues compilation report not an opinion



AICPA SSARS 21  
Fact Sheet

# Accountant's Compilation Report

I have compiled the accompanying balance sheet of XYZ Company as of December 31, 20XX, and the related statements of income, retained earnings, and cash flows for the year then ended. **I have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance** about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

**Management is responsible for the preparation and fair presentation of the financial statements** in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements. My responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

The objective of a compilation is to assist management in presenting financial information in the form of financial **statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.**

I am (we are) not independent with respect to XYZ Company as during the year ended December 31, 20XX, I was employed by the parent corporation of XYZ Company, ABC Corp.

# 2<sup>nd</sup> CPA Provided Financial Statements Type

## Review

- CPA must be independent (cannot review their own work).
- Required to follow AICPA standards for Accounting and review services. Includes some limited analysis and inquiries.
- Cannot be relied on to reveal fraud or misstatement.
- Provides level of assurance.

# Accountant's Review Report

I have reviewed the accompanying financial statements of XYZ Partnership, **which comprise the statement of assets, liabilities, and partners' capital—tax basis** as of December 31, 20XX, and the **related statements of revenue and expenses—tax basis**, and partners' capital—tax basis for the year then ended, and the related notes to the financial statements.

**A review includes primarily applying analytical procedures** to management's (partners') financial data and making inquiries of partnership management (partners). A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. **Accordingly, I do not express such an opinion.**

- Management's Responsibility for the Financial Statements
- Accountant's Responsibility
- Accountant's Conclusion

Based on my review, **I am not aware of any material modifications that should be made** to the accompanying financial statements in order for them to be in accordance with the basis of accounting the partnership uses for income tax purposes.

# 3<sup>rd</sup> CPA Provided

## Financial Statements Type

### Certified Independent Audit

- Must be done by a CPA, whom must also be independent. Must assure the accuracy and completeness of financials and adherence to a standard. i.e., GAAP, OCBOA,
- Utilizes testing, analysis, and interviews,
- Document and test internal controls.
- Verify balance sheet items. i.e., buildings inventory.
- Auditor's Objective - derive an opinion regarding a company's financials statements and the accompanying notes.
- Audit opinions:
  - Unmodified (clean) opinion,
  - Qualified opinion
  - Disclaimer of opinion
  - Adverse opinion

# Accountant's Audit Unmodified Opinion

**We have audited** the accompanying consolidated balance sheets of Avista Corporation and subsidiaries (the “Company”) as of December 31, 2022, and 2021, the related consolidated statements of income, comprehensive income, equity, and cash flows, for each of the three years in the period ended December 31, 2022, **and the related notes** (collectively referred to as the “financial statements”).

**In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company** as of December 31, 2022, and 2021, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2021, **in conformity with accounting principles generally accepted in the United States of America.**



# Accountant's Audit Unmodified Opinion

**We have audited** Corporation and 2021, the related income, equity, and ended December the "financial state

**In our opinion, the respects, the financial** and 2021, and the two years in the period **accounting principles generally accepted in the United States of America.**

It is important if you are the regulatory auditor of a CPA audited utility or even an employee of one, to read the most recent Accountant's Opinion. Recognize these examples have been condensed for teaching purposes.

statements of Avista December 31, 2022, and comprehensive in the period referred to as **material** December 31, 2022, its cash flows for each of the

# 3<sup>rd</sup> CPA Provided

## Financial Statements Type

### Certified Independent Audit

- Must be done by a CPA, whom must also be independent. Must assure the accuracy and completeness of financials and adherence to a standard. i.e., GAAP, OCBOA,
- Utilizes testing, analysis, and interviews,
- Document and test internal controls.
- Verify balance sheet items. i.e., buildings inventory.
- Auditor's Objective - derive an opinion regarding a company's financials statements and the accompanying notes.
- Audit opinions:
  - Unmodified (clean) opinion,
  - Qualified opinion
  - Disclaimer of opinion
  - Adverse opinion



**Modified**

# Auditing

1. Certified Financial Audit
2. Regulatory Audit
3. Performance Audits
4. Quality Audits
5. Project Management
6. CAM\* Audits
7. Management Audits
8. Forensic Audits

\* Cost Adjustment Mechanisms

A regulatory audit is not a certified audit.



# Regulatory Audits - Types

**Economic** – Rate case - tariff filings  
Finance filings

**Oversight** – Annual Reports - Spot Audits  
Integrated Resource Plans

**Compliance** – Filings ordered by a regulatory authority  
Trackers, Riders, Surcharges, & Decoupling

# Regulatory Audits - Types

## a) Desk Audits

- Review of all available or filed documents
- Routinely requested additional data from company
- Low cost, higher productivity (e.g., no travel time, small talk)
- Harder to follow up, lose one-to-one interaction

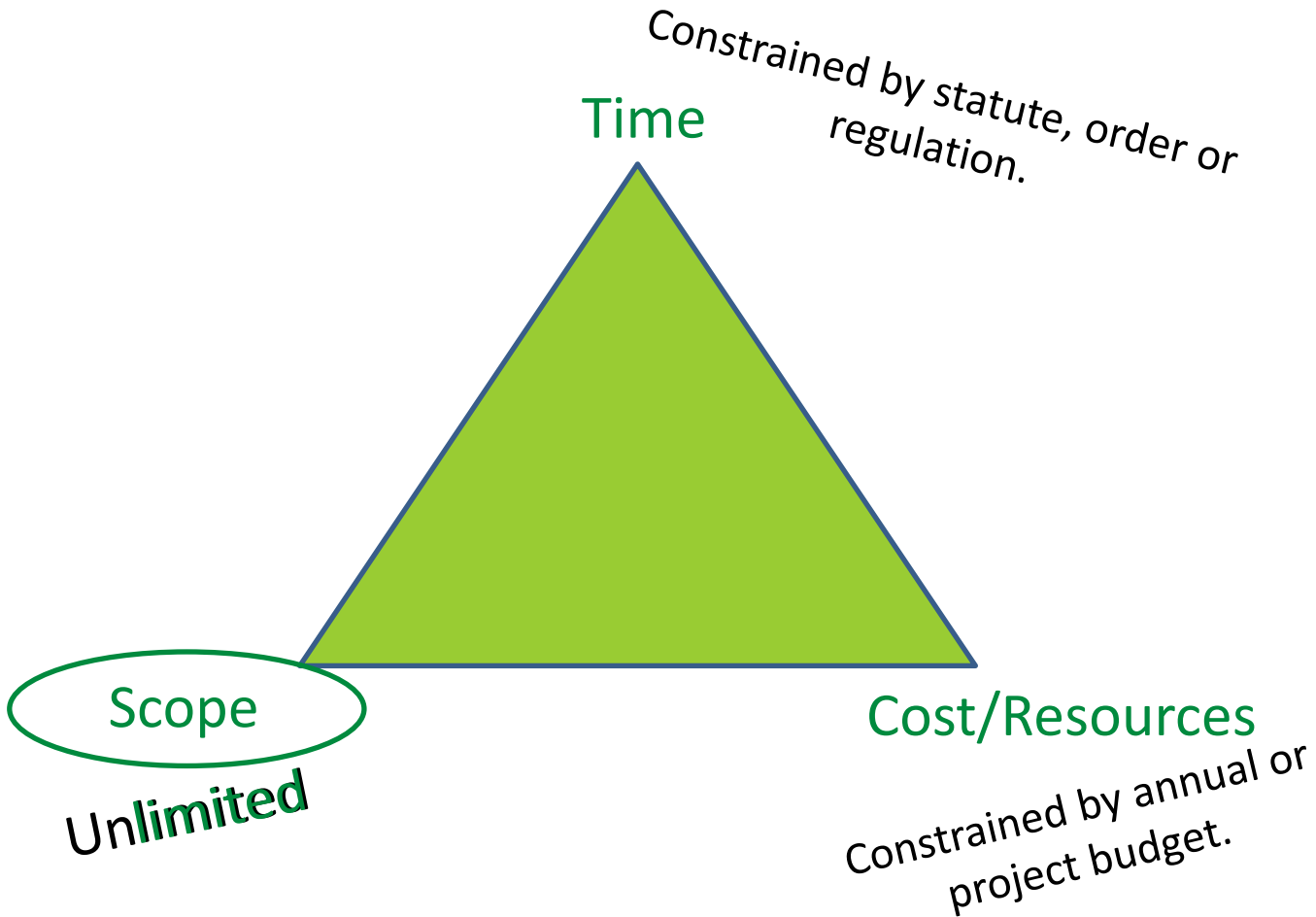
## b) Site Audits

- Review supporting documents on site, limited follow-up
- Informal interaction and conversations with key personnel
- Tour facilities or the focus of a filing or inquiry (e.g., energy-storage facility, hydro dam site)

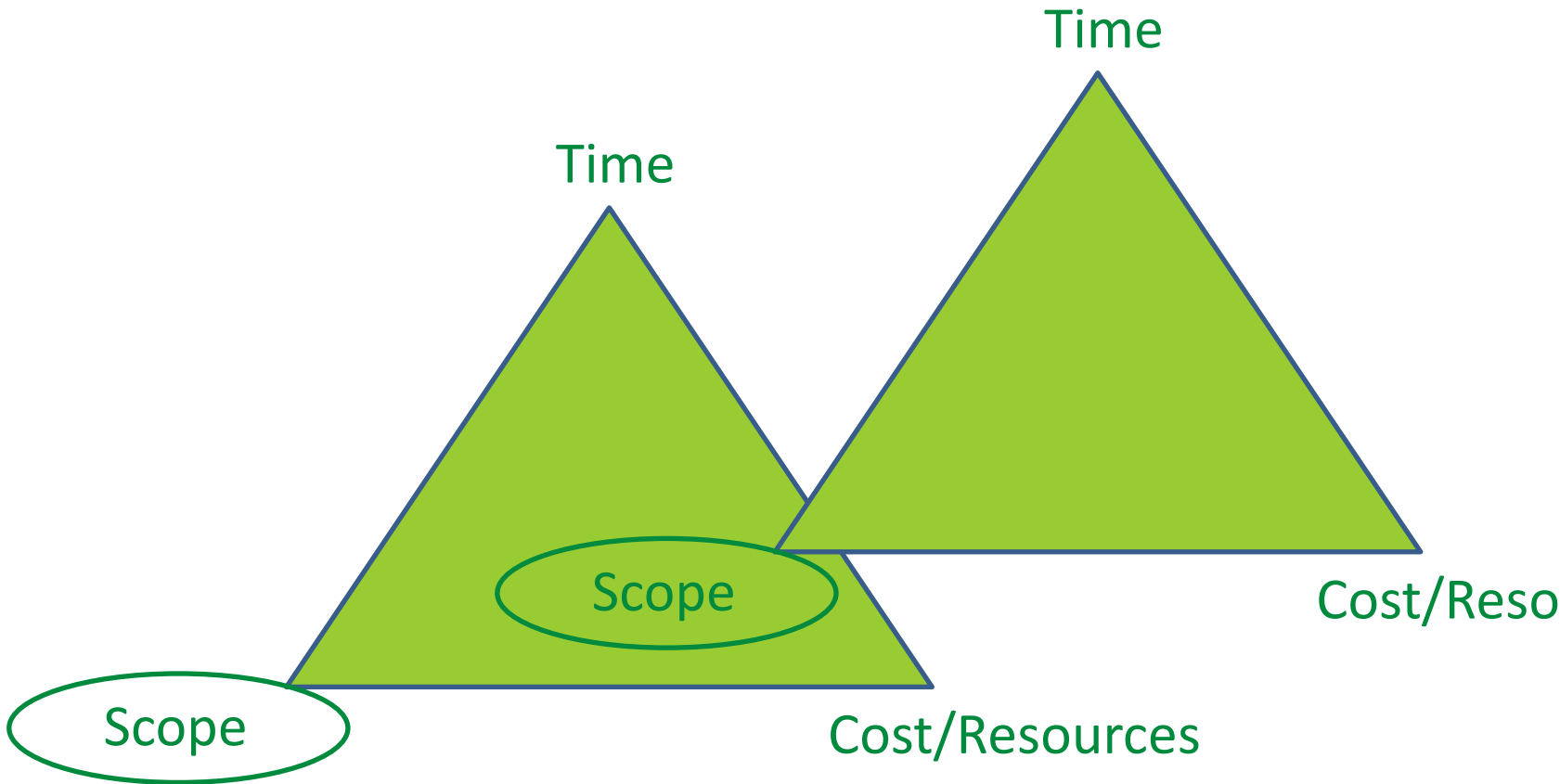
newspaper, magazine, or radio programme) or who is in charge of a newspaper: *the 'sports, fi'nancial,*  
▷ **ed·it·or·ship** *n* [U].  
**ed·it·or·ial** /,edi'tɔ:riəl/ *adj* [usu  
editor: *the editorial office* ○ *editorial*  
▷ **ed·it·or·ial** *n* special article in a newspaper  
giving an opinion on some topical  
written by the editor).  
**EDP** /,i: di: 'pi:/ *abbr* electronic data processing  
**EDT** /,i: di: 'ti:/ *abbr* (US) Eastern Daylight  
EST 1.  
**edu·cate** /'edʒukeɪt/ *v* [Tn, Tn·pr, Cn·pr]  
(sth) train the mind and character of sb  
provide sb with an education: The public  
educated in how to use energy.  
Parents should be encouraged to  
well.

## Scope of Audit

# Project Constraint Triangle



# Project Constraint Triangle

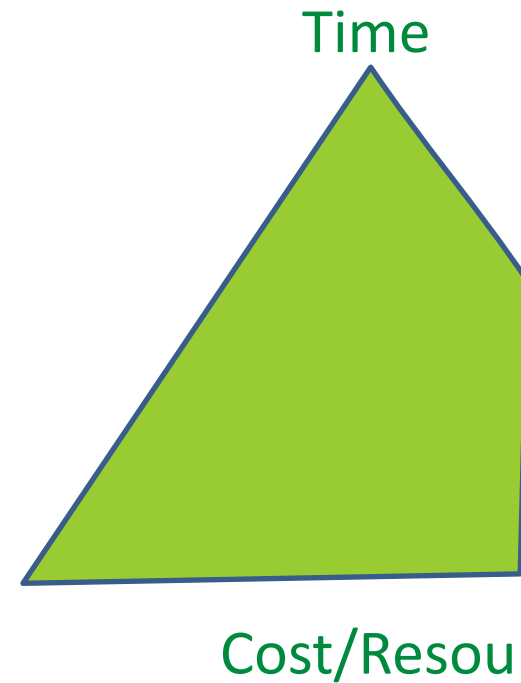




## Limiting Scope To:

1. Preliminary due diligence
2. Materiality
3. Political or social sensitivity, and
4. Application of regulatory accounting principles

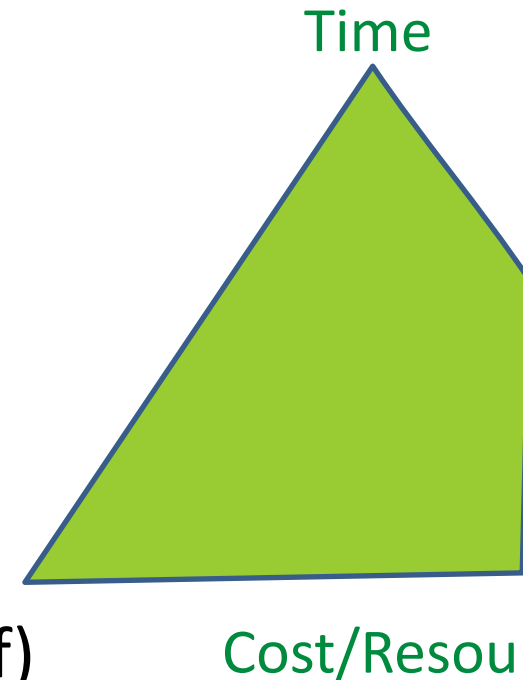
Scope



## Limiting Scope To:

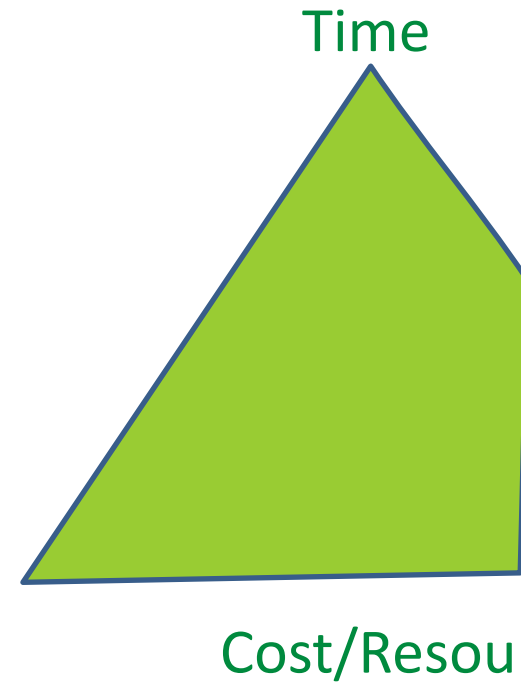
### 1. Preliminary Due Diligence

- Due Diligence
  - Preliminary research and analysis
    - Review prior orders
    - Review prior audits (CPA and Staff)
    - Annual reports and proxies
    - Variance examination
  - Review filing for CCCA
    - Correctness, Completeness,
    - Consistency and Accuracy
  - Review for timeliness – test year



## Limiting Scope To: 2. Materiality

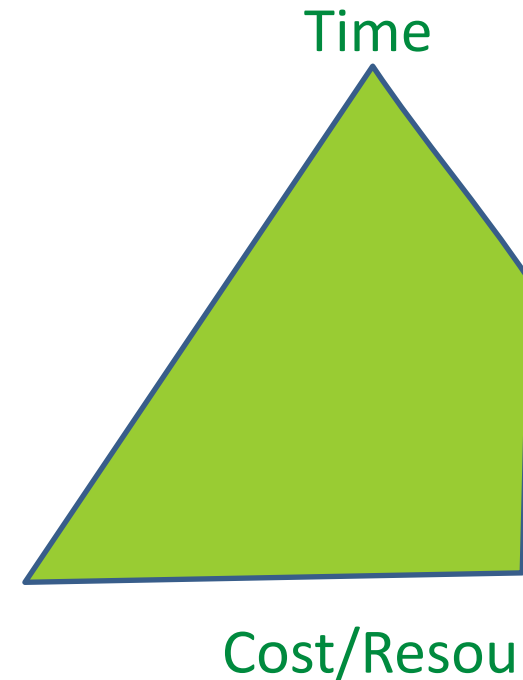
- Material Items
  - Costs of new infrastructure
  - Officers' salaries  
(Named Executive officers)
  - Catastrophic expenses
  - Other major cost drivers
- Minimal focus on non-material operating costs
  - Postage Stamps
  - Coffee for office staff
  - Seasonal office parties



## Limited Scope

### 3. Politically or Socially Sensitive Costs

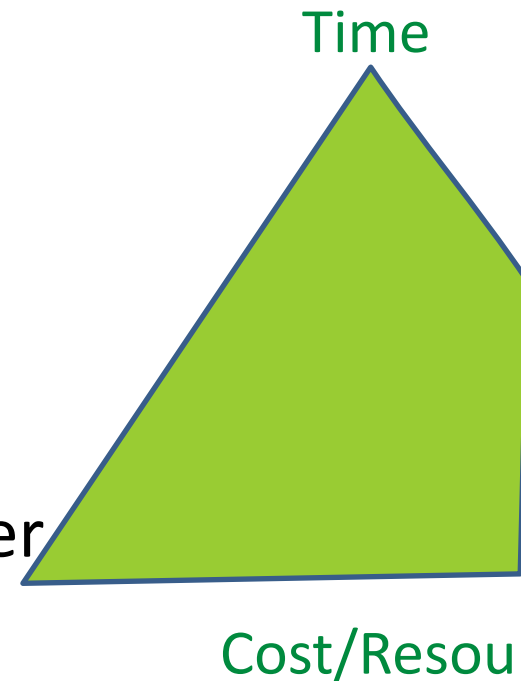
- Non-material items
  - Charitable donations
  - Political contributions
  - Traffic or parking tickets
  - Miscellaneous expense
  - Gifts for board members



## Limited Scope

### 4. Application of regulatory accounting principles

- Income Tax Basis of Accounting or Other Comprehensive Basis of Accounting (OCBOA)
- GAAP Accounting Treatment which Regulatory Accounting Prohibits
- Accounting Not Consistent with State adopted **USoA**, Rules or Orders



\* **USoA** - Uniform System of Accounts

# Beginning the Regulatory Audit

## Preliminary Due Diligence

Review publicly available reports:

- Annual Report to Shareholders
- Annual Report to the SEC (10-K)
- Annual Report to the FERC (Form 1,2 & 6)
- State Required Reports

EXTENDING  
Our ROOTS

#### Highlights of Our 207th Year

(In thousands of dollars, except per share amounts)

Summary of Operations					
For Total Year	2022	2021	2020	2019	2018
Operating revenues	\$ 60,061	\$ 53,119	\$ 53,852	\$ 51,578	\$ 46,437
Operating expenses	35,578	31,723	29,421	27,792	25,920
Operating income	24,483	21,396	24,431	23,786	20,517
Interest expense	5,613	3,705	4,177	4,758	5,280
Gain on life insurance	-	-	515	-	-
Other income (expenses), net	(1,275)	(1,967)	(2,153)	(2,386)	(1,370)
Income before income taxes	18,595	18,104	18,616	16,642	15,867
Income taxes	15	1,120	2,016	2,240	2,491
Net income	\$ 18,580	\$ 16,984	\$ 16,599	\$ 14,402	\$ 13,376
<b>Per Share of Common Stock</b>					
Book value	\$ 14.50	\$ 11.64	\$ 10.97	\$ 10.31	\$ 9.75
Earnings per share:					
Basic	1.40	1.30	1.27	1.11	1.04
Diluted	1.40	1.30	1.27	1.11	1.04
Weighted average number of shares outstanding during the year:					
Basic	13,957,700	13,076,263	13,033,681	12,964,080	12,903,568
Diluted	13,958,915	13,077,290	13,034,520	12,966,292	12,903,836
Cash dividends declared per share	0.7874	0.7571	0.7280	0.7001	0.6731
<b>Utility Plant</b>					
Original cost,					
net of acquisition adjustments	\$ 539,903	\$ 482,113	\$ 434,963	\$ 398,065	\$ 377,676
Construction expenditures	30,532	34,409	32,123	18,425	16,882
<b>Other</b>					
Total assets	\$ 510,595	\$ 458,853	\$ 408,957	\$ 363,529	\$ 343,140
Long-term debt including current portion	139,465	146,369	123,573	101,035	93,358

For Management's Discussion and Analysis of Financial Condition and Results of Operations, please refer to Item 7 in the Company's Annual Report on Form 10-K.



the  
ders

investors  
webpage

# Beginning the Regulatory Audit

## Preliminary Due Diligence

Review publicly available reports:

- Annual Report to Shareholders
- Annual Report to the SEC (10-K)
- Annual Report to the FERC (Form 1,2 & 6)
- State Required Reports



UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2022.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-34245

**THE YORK WATER COMPANY**

(Exact name of registrant as specified in its charter)



Pennsylvania

(State or other jurisdiction of incorporation or organization)

23-1242500

(I.R.S. Employer Identification No.)

130 East Market Street, York, Pennsylvania

(Address of principal executive offices)

17401

(Zip Code)

Registrant's telephone number, including area code (717) 845-3601

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, No par value

(Title of Class)

YORW

(Trading Symbol)

The NASDAQ Global Select Market

(Name of Each Exchange on Which Registered)

Securities registered pursuant to Section 12(g) of the Act:

None

(Title of Each Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

# Annual Report Form to the SEC – Form 10 K

Normally found in the *investors*  
section of a company's webpage



# Annual Report to the SEC (10-K)

## PART I

**Item 1.** Business

**Item 1A.** Risk Factors

**Item 1B.** Unresolved Staff  
Comments

**Item 2.** Properties

**Item 3.** Legal Proceedings

**Item 4.** Mine Safety Disclosures  
(SEC reserved)



## PART II

**Item 5.** Market for the Registrant's Common  
Equity, Related Stockholder Matters and  
Issuer Purchases of Equity Securities

**Item 6.** Selected Financial Data

**Item 7.** Management's Discussion and Analysis of  
Financial Condition and Results of  
Operation

**Item 7A.** Quantitative and Qualitative Disclosures  
About Market Risk

**Item 8.** Financial Statements

**Item 9.** Changes in and Disagreements with  
Accountants on Accounting and Financial  
Disclosure

**Item 9A.** Controls and Procedures

**Item 9B.** Other Information

# Annual Report to the SEC (10-K)

10-K 1 form10k.htm THE YORK WATER COMPANY 10K 12-31-19

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934  
For the fiscal year ended December 31, 2019
- OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-34345

**THE YORK WATER COMPANY**

(Exact name of registrant as specified in its charter)



PENNSYLVANIA

(State or other jurisdiction of incorporation or organization)

22-1345

(I.R.S. Employer ID)

1305 BATAVIA STREET YORK PENNSYLVANIA

17406

## THE YORK WATER COMPANY

### PART I

#### Item 1. Business.

The York Water Company (the "Company") is the oldest investor-owned water utility in the United States and is duly organized under the laws of the Commonwealth of Pennsylvania. The Company has operated continuously since 1816. The primary business of the Company is to impound, purify to meet or exceed safe drinking water standards and distribute water. The Company also owns and operates three wastewater collection systems and eight wastewater collection and treatment systems. The Company operates within its franchised water and wastewater territory, which covers portions of 54 municipalities within three counties in south-central Pennsylvania. The Company is regulated by the Pennsylvania Public Utility Commission, or PPUC, for both water and wastewater in the areas of billing, payment procedures, dispute processing, terminations, service territory, debt and equity financing and rate setting. The Company must obtain PPUC approval before changing any practices associated with the aforementioned areas.

Water service is supplied through the Company's own distribution system. The Company obtains the bulk of its water supply for its primary system for York and Adams Counties from both the South Branch and East Branch of the Codorus Creek, which together have an average daily flow of 73.0 million gallons from a combined watershed area of approximately 117 square miles. The Company has two reservoirs on this primary system, Lake Williams and Lake Redman, which together hold up to approximately 2.2 billion gallons of water. The Company supplements these reservoirs with a 15-mile pipeline from the Susquehanna River to Lake Redman which provides access to an additional supply of 12.0 million gallons of untreated water per day. The Company obtains its water supply for its system for Franklin County from the Roxbury Dam on the Conodoguinet Creek, which has an average daily flow of approximately 26.0 million gallons from a watershed area of approximately 33 square miles. The Company has a reservoir on this system which holds up to approximately 330 million gallons of water. The Company also owns eleven wells which are capable of providing a safe yield of

The Company has agreements with several municipalities to provide billing and collection services. The Company also has a service line protection program on a targeted basis in order to further diversify its business. Under this optional program, customers pay a fixed monthly fee, and the Company will repair or replace damaged customer service lines, as needed, subject to an annual maximum dollar amount. The Company continues to review and consider opportunities to expand both initiatives.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Sec

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sec

Indicate by check mark whether the registrant has submitted electronically and posted on its cor

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a

- Large accelerated filer  Accelerated filer  Non-accelerated
- Small reporting company  Emerging growth company

Revenues are particularly vulnerable to weather conditions in the summer months. Prolonged periods of hot and dry weather generally cause increased water usage for watering lawns, washing cars, and keeping golf courses and sports fields irrigated. Conversely, prolonged periods of dry weather could lead to drought restrictions from governmental authorities. Despite the Company's adequate water supply, customers may be required to cut back water usage under such drought restrictions which would negatively impact revenues. The Company has addressed some of this vulnerability by instituting minimum customer charges which are intended to cover fixed costs of operations under all likely weather conditions.

The Company's business does not require large amounts of working capital and is not dependent on any single customer or a very few customers for a material portion of its business. Increases in revenues are generally dependent on the Company's ability to obtain rate increases from the PPUC in a timely manner and in adequate amounts and to increase volumes of water sold through increased consumption and increases in the number of customers served. The Company continuously looks for water and wastewater acquisition and expansion opportunities both within and outside its current service territory as well as additional opportunities to enter into bulk water contracts with municipalities and other entities to supply water.

The Company has agreements with several municipalities to provide billing and collection services. The Company also has a service line protection program on a targeted basis in order to further diversify its business. Under this optional program, customers pay a fixed monthly fee, and the Company will repair or replace damaged customer service lines, as needed, subject to an annual maximum dollar amount. The Company continues to review and consider opportunities to expand both initiatives.

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# Annual Report to the SEC (10-K)

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)  
 ANNUAL REPORT PURSUANT TO SECTION 13(a) OF THE SECURITIES ACT OF 1934  
 TRANSITION REPORT PURSUANT TO SECTION 13(a) OF THE SECURITIES ACT OF 1934

## ITEM 1A. RISK FACTORS

In addition to the factors affecting specific business operations identified in the description of these operations contained elsewhere in this report, set forth below are risks and uncertainties that could affect our financial results. Unless otherwise indicated or the context otherwise requires, the following risks and uncertainties apply to Pinnacle West and its subsidiaries, including APS.

### REGULATORY RISKS

*Our financial condition depends upon APS's ability to recover costs in a timely manner from customers through regulated rates and otherwise execute its business strategy.*

APS is subject to comprehensive regulation by several federal, state and local regulatory agencies that significantly influence its business, liquidity and results of operations and its ability to fully recover costs from utility customers in a timely manner. The ACC regulates APS's retail electric rates and FERC regulates rates for wholesale power sales and transmission services. The profitability of APS is affected by the rates it may charge and the timeliness of recovering costs incurred through its rates and adjustor recovery mechanisms. Consequently, our financial condition and results of operations are dependent upon the satisfactory resolution of any APS rate proceedings, adjustor recovery and ancillary matters which may come before the ACC and FERC, including in some cases how court challenges to these regulatory decisions are resolved.

The ACC must also approve APS's issuance of equity and debt securities and any significant transfer or encumbrance of APS property used to provide retail electric service and must approve or receive prior notification of certain transactions between us, APS, and our respective affiliates, including the infusion of equity into APS. Decisions made by the ACC or FERC could have a material adverse impact on our financial condition, results of operations, or cash flows.

- Operational Risks
- Financial Risks
- General Risks



# Annual Report to the SEC (10-K)

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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2022

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File  
Number

Exact Name of Each Registrant as specified in its  
charter, State of Incorporation, Address and  
Telephone Number

ISSI employer  
Identification No.

1-0002

**PINNACLE WEST CAPITAL CORPORATION**

00-0112001

(an Arizona corporation)

## ITEM 1B. UNRESOLVED STAFF COMMENTS

Neither Pinnacle West nor APS has received written comments regarding its periodic or current reports from the SEC staff that were issued 180 days or more preceding the end of its 2022 fiscal year and that remain unresolved.

Indicate the registration pursuant to Section 12(b) of the Act:

ARIZONA PUBLIC SERVICE COMPANY Common Stock, Par Value \$2.50 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:

PINNACLE WEST CAPITAL CORPORATION Yes  No

ARIZONA PUBLIC SERVICE COMPANY Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act:

PINNACLE WEST CAPITAL CORPORATION No  Yes

ARIZONA PUBLIC SERVICE COMPANY No  Yes

Indicate by check mark whether each registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

PINNACLE WEST CAPITAL CORPORATION Yes  No

ARIZONA PUBLIC SERVICE COMPANY Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files):

PINNACLE WEST CAPITAL CORPORATION Yes  No

ARIZONA PUBLIC SERVICE COMPANY Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

PINNACLE WEST CAPITAL CORPORATION

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Emerging growth company

ARIZONA PUBLIC SERVICE COMPANY

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 1329 of the Exchange Act:

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Securities Exchange Act (15 U.S.C. 7262b) by the registered public accounting firm that prepared or issued its audit report:

Indicate by check mark whether each registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

PINNACLE WEST CAPITAL CORPORATION Yes  No

# Annual Report to the SEC (10-K)

## PART I

Item 1. Business

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Item 1B. Unresolved Staff  
Comments

Item 2. Properties

Item 3. Legal Proceedings

Item 4. Mine Safety Disclosures



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Item 5. Market for the Registrant's Common  
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Issuer Purchases of Equity Securities

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Item 7. Management's Discussion and Analysis of  
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Operation

Item 7A. Quantitative and Qualitative Disclosures  
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Accountants on Accounting and Financial  
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# Annual Report to the SEC (10-K)

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

## Report of Independent Registered Public Accounting Firm

FORM 10-K

To the Stockholders and the Board of Directors of  
The York Water Company

(Mark One)  
 ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SEC  
For the fiscal year ended December 31, 2022  
OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SEC  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

### Opinion on the Financial Statements

We have audited the accompanying balance sheets of The York Water Company (the "Company") as of December 31, 2022 and 2021, the related statements of income, common stockholders' equity, and cash flows for the years then ended and the related notes and financial statement schedule listed in Item 15(a)2 (collectively referred to as the "financial statements"). In our opinion, the financial

Commission file number 001-34245

### Opinion on the Financial Statements

We have audited the accompanying balance sheets of The York Water Company (the "Company") as of December 31, 2022 and 2021, the related statements of income, common stockholders' equity, and cash flows for the years then ended and the related notes and financial statement schedule listed in Item 15(a)2 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Securities registered pursuant to Section 12(b) of the Act:  
Common Stock, No par value  
(Title of Class)

YORW  
(Trading Symbol)

Securities registered pursuant to Section 12(g) of the Act:

to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial

### Critical Audit Matters

Critical audit matters are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated company, or an emerging growth company. See the definitions of "large accelerated company," and "emerging growth company" in Rule 12b-2 of the Exchange Act

and (2) involved our especially challenging, subjective, or complex judgments. We determined that there are no critical audit matters.



**Balance Sheets**  
(In thousands of dollars, except per share amounts)

	Dec. 31, 2022	Dec. 31, 2021	
<b>STOCKHOLDERS' EQUITY AND LIABILITIES</b>			
<b>COMMON STOCKHOLDERS' EQUITY:</b>			
Common stock, no par value, authorized 46,500,000 shares, issued and outstanding 14,285,584 shares in 2022 and 13,112,948 shares in 2021	\$ 134,220	\$ 88,230	
Retained earnings	72,963	64,392	
<b>Total common stockholders' equity</b>	<u>207,183</u>	<u>152,622</u>	21
PREFERRED STOCK, authorized 500,000 shares, no shares issued	-	-	750
LONG-TERM DEBT, excluding current portion	139,465	138,869	637)
			<u>204)</u>
COMMITMENTS	-	-	909
CURRENT LIABILITIES:			717
Current portion of long-term debt	-	7,500	
Accounts payable	10,766	6,712	
Dividends payable	2,628	2,293	1
Accrued compensation and benefits	1,541	1,575	
Accrued interest	965	959	634
Deferred regulatory liabilities	593	607	784
Other accrued expenses	488	440	894
<b>Total current liabilities</b>	<u>16,981</u>	<u>20,086</u>	917
DEFERRED CREDITS:			932
Customers' advances for construction	14,911	12,820	262
Deferred income taxes	47,901	49,590	
Deferred employee benefits	3,725	4,530	054
Deferred regulatory liabilities	37,448	36,374	255
Other deferred credits	680	2,086	280
<b>Total deferred credits</b>	<u>104,665</u>	<u>105,400</u>	376
Contributions in aid of construction	42,301	41,876	965
<b>Total Stockholders' Equity and Liabilities</b>	<u>\$ 510,595</u>	<u>\$ 458,853</u>	<u>853</u>

The accompanying notes are an integral part of these statements.

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(Mark One)  
 ANNUAL REPORT PURSUANT TO SECTION 13(a) OF THE SECURITIES ACT OF 1934  
 For the fiscal year ended December 31, 2022

TRANSITION REPORT PURSUANT TO SECTION 13(a) OF THE SECURITIES ACT OF 1934  
 For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-34245

Permyd, PA  
 (State or other jurisdiction of incorporation)

130 East Market Street  
 (Address of principal executive office)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of Regulation S-K:  Yes  No

Indicate by check mark if the registrant is not a well-known seasoned issuer, as defined in Rule 405 of Regulation S-K, and is filing this report pursuant to Rule 405 of Regulation S-K:  Yes  No

Indicate by check mark whether the registrant has filed all reports required by Section 13(a) of the Securities Act of 1934 during the preceding 12 months (or for such shorter period as the registrant was required to submit such reports) and that the registrant is not a defunct company:  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company, and if an emerging growth company, whether it has elected to forgo the extended transition period for complying with new or revised financial accounting standards:  Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

# Annual Report

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-K**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2022.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-34245

**THE YORK WATER COMPANY**

(Exact name of registrant as specified in its charter)



**Notes to Financial Statements**

(In thousands of dollars, except per share amounts)

**Item 8. Financial Statements.**

**1. Significant Accounting Policies**

The primary business of The York Water Company, or the Company, is to impound, purify and distribute water. The Company also owns and operates three wastewater collection systems and eight wastewater collection and treatment systems. The Company operates within its franchised territory located in three counties within south-central Pennsylvania and is subject to regulation by the Pennsylvania Public Utility Commission, or PPUC.

The following summarizes the significant accounting policies employed by The York Water Company.

**Utility Plant and Depreciation**

The cost of additions includes contracted cost, direct labor and fringe benefits, materials, overhead and, for certain utility plant, allowance for funds used during construction. In accordance with regulatory accounting requirements, water and wastewater systems acquired are recorded at estimated original cost of utility plant when first devoted to utility service and the applicable depreciation is recorded to accumulated depreciation. The difference between the estimated original cost less applicable accumulated depreciation, and the purchase price and acquisition costs, is recorded as an acquisition adjustment within utility plant as permitted by the PPUC. At December 31, 2022 and 2021, utility plant includes a net credit acquisition adjustment of \$9,178 and \$3,637, respectively. For those amounts approved by the PPUC, the net acquisition adjustment is being amortized over the remaining life of the respective assets. Certain amounts are still awaiting approval from the PPUC before amortization will commence. Amortization amounted to \$67 for each of the years ended December 31, 2022 and 2021.

Upon normal retirement of depreciable property, the estimated or actual cost of the asset is credited to the utility plant account, and such amounts, together with the cost of removal less salvage value, are charged to the reserve for depreciation. To the extent the Company recovers cost of removal or other retirement costs through rates after the retirement costs are incurred, a regulatory asset is reported. Gains or losses from abnormal retirements are reflected in income currently.

Registrant's telephone number, including area code (717) 845-3601

Securities registered pursuant to Section 12(b) of the Act:

<u>Common Stock, No par value</u> (Title of Class)	<u>YORW</u> (Trading Symbol)	<u>The NASD</u> (Name of Each Exchange)

Securities registered pursuant to Section 12(g) of the Act:

None  
(Title of Each Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 and 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit such files).

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, an emerging growth company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "non-accelerated filer," "emerging growth company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

over the estimated service lives. Such provisions are charged to clearing accounts and apportioned therefrom to operating expenses and other accounts in accordance with the Uniform System of Accounts as prescribed by the PPUC.

The Company charges to maintenance expense the cost of repairs and replacements and renewals of minor items of property. Maintenance of transportation equipment is charged to clearing accounts and apportioned from there in a manner similar to depreciation. The cost of replacements, renewals, and betterments of units of property is capitalized to the utility plant accounts.

The following remaining lives are used for financial reporting purposes:

<u>Utility Plant Asset Category</u>	<u>December 31</u>		<u>Approximate range of remaining lives</u>
	<u>2022</u>	<u>2021</u>	
Mains and accessories	\$ 265,033	\$ 242,160	12 – 86 years
Services, meters, and hydrants	92,818	87,164	14 – 47 years
Operations structures, reservoirs, and water tanks	87,218	73,462	10 – 56 years
Pumping and treatment equipment	40,038	37,209	5 – 34 years
Office, transportation, and operating equipment	18,128	16,856	2 – 21 years
Land and other non-depreciable assets	3,938	3,714	–
Utility plant in service	507,173	460,565	
Construction work in progress	41,968	25,185	–
<b>Total Utility Plant</b>	<b>\$ 549,141</b>	<b>\$ 485,750</b>	

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# Annual Report to the SEC (10-K)

## PART III

- Item 10.** Directors, Executive Officers and Corporate Governance
- Item 11.** Executive Compensation
- Item 12.** Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters
- Item 13.** Certain Relationships and Related Transactions, and Director Independence
- Item 14.** Principal Accounting Fees and Services

## PART IV

- Item 15.** Exhibits and Financial Statement Schedules
- Item 16.** Form 10-K Summary



# Annual Report to the SEC (10-K)



## Item 10. Directors, Executive Officers and Corporate Governance.

### Directors of the Registrant

The information set forth under the caption “Election of Directors” of the 2023 Proxy Statement is incorporated herein by reference.

### Executive Officers of the Registrant

The information set forth under the caption “Executive Officers of the Company” of the 2023 Proxy Statement is incorporated herein by reference.

### Code of Ethics

The information set forth under the caption “Code of Ethics” of the 2023 Proxy Statement is incorporated herein by reference.

### Audit Committee

The information set forth under the caption “Board Committees and Functions” of the 2023 Proxy Statement is incorporated herein by reference.

## Item 11. Executive Compensation.

The information set forth under the caption “Compensation of Directors and Executive Officers” of the 2023 Proxy Statement is incorporated herein by reference.



# Annual Report to the SEC (10-K) IPUMSU



1411 E. Mission Ave.  
Spokane, Washington 99202

## NOTICE OF

Avista's Annual Meeting of Shareholders. The meeting is being held at the Appell Center for the Performing Arts, 50 North George Street, York, Pennsylvania 17401, on Monday, May 1, 2023, at 1:00 p.m. local time for the purpose of taking action upon the following proposals:

- (1) elect eleven directors to three-year terms of office;
- (2) ratify the appointment of Baker Tilly US, LLP as the independent registered public accounting firm for the fiscal year ending December 31, 2023;
- (3) hold an advisory vote to approve the executive compensation of the Company's named executive officers;
- (4) hold an advisory vote on the frequency of future advisory votes on executive compensation; and
- (5) transact such other business as may properly come before the meeting.

Shareholders of record as of the close of business on March 28, 2023, are entitled to vote at the meeting. For more information, see page 65 of the proxy statement.

Your vote is very important. If you are a shareholder of record, you may vote by promptly returning your completed voting instruction card to your broker or nominee. The proxy is solicited by the Board of Directors of Avista Corp.

If your shares are held through an account with a brokerage firm, bank or other nominee, by returning your completed voting instruction card to your broker or nominee. The proxy is solicited by the Board of Directors of Avista Corp.

We cordially invite you to attend the meeting.

By Order of the Board,

**Gregory C. Hesler**  
Senior Vice President, General Counsel, Corporate Secretary and Chief Ethics/Compliance Officer

Spokane, Washington  
March 28, 2023

THIS PROXY STATEMENT AND THE 2022 ANNUAL REPORT ARE AVAILABLE ON THE INTERNET AT [HTTP://PROXYVOTE.COM](http://PROXYVOTE.COM)

THE YORK WATER COMPANY  
130 EAST MARKET STREET  
YORK, PENNSYLVANIA 17401

March 21, 2023

## NOTICE OF ANNUAL MEETING OF SHAREHOLDERS TO THE SHAREHOLDERS OF THE YORK WATER COMPANY

NOTICE IS HEREBY GIVEN that the Annual Meeting of the Shareholders of The York Water Company will be held at The Appell Center for the Performing Arts, 50 North George Street, York, Pennsylvania 17401, on Monday, May 1, 2023, at 1:00 p.m. local time for the purpose of taking action upon the following proposals:

- (1) To elect four (4) Directors to three-year terms of office;
- (2) To ratify the appointment of Baker Tilly US, LLP as the independent registered public accounting firm for the fiscal year ending December 31, 2023;
- (3) To provide an advisory vote to approve the executive compensation of the Company's named executive officers;
- (4) To provide an advisory vote on the frequency of future advisory votes on executive compensation; and
- (5) To transact such other business as may properly come before the meeting.

NOTICE IS HEREBY GIVEN that the Annual Meeting of the Shareholders of The York Water Company will be held at The Appell Center for the Performing Arts, 50 North George Street, York, Pennsylvania 17401, on Monday, May 1, 2023, at 1:00 p.m. local time for the purpose of taking action upon the following proposals:

- (1) To elect four (4) Directors to three-year terms of office;
- (2) To ratify the appointment of Baker Tilly US, LLP as the independent registered public accounting firm for the fiscal year ending December 31, 2023;
- (3) To provide an advisory vote to approve the executive compensation of the Company's named executive officers;
- (4) To provide an advisory vote on the frequency of future advisory votes on executive compensation; and
- (5) To transact such other business as may properly come before the meeting.

completing a ballot available upon request at the meeting. Beneficial shareholders whose shares are held in the name of a bank, broker or other nominee must obtain a legal proxy from the holder of record (that is, your bank, broker or nominee) to be able to vote in person at the Annual Meeting.

### Important Meeting Information

The Annual Meeting is currently scheduled to be held in person. Due to continued and evolving regulations regarding travel, gatherings, and other restrictions relating to COVID-19 public health concerns, the Company's directors and officers may be required to participate remotely or the Company may decide to hold the meeting in a different location or virtually. While there are not currently any additional COVID-19-related requirements at The Appell Center for the Performing Arts, that is subject to change. At this time, masks are not required, but strongly encouraged for those that are unvaccinated. Any relevant updates will be available on the meeting location's website at [www.appellcenter.org/plan-your-visit/covid-policies](http://www.appellcenter.org/plan-your-visit/covid-policies) and the Company's website at [www.yorkwater.com](http://www.yorkwater.com). Please check the websites prior to the meeting if you plan to attend.

If you plan on attending the meeting, doors will open at 11:30 a.m. and a boxed lunch will be provided beginning at 12:00 p.m. Please RSVP to Molly Houck at (717) 718-2942 or e-mail [mollyh@yorkwater.com](mailto:mollyh@yorkwater.com) if you will be joining us for lunch.

Thank you for your continued interest and support of The York Water Company!

By order of the Board of Directors,

Secretary

# Annual Report to the SEC (10-K)

THE YORK WATER COMPANY  
130 EAST MARKET STREET  
YORK, PENNSYLVANIA 17401

March 21, 2023

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### NOTICE OF ANNUAL MEETING

Avista's Annual Meeting will be held at the meeting are to:

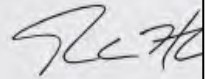
- (1) elect eleven directors identified in the proxy statement;
- (2) ratify the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the year ending December 31, 2023;
- (3) hold an advisory (non-binding) vote on the compensation of the Company's named executive officers; and
- (4) hold an advisory (non-binding) vote on the frequency of advisory votes on executive compensation.

Shareholders of record may participate in the meeting by attending in person or by voting by proxy. See page 65 of the proxy statement for more information.

**Your vote is very important.** Please vote as soon as possible by promptly voting over the internet or by returning a proxy card in a return envelope (which will be mailed to you if your shares are held through a broker or a depository). Please refer to the instruction card to your broker or depository for more information.

We cordially invite you to attend the meeting.

By Order of the Board,



Gregory C. Hesler  
Senior Vice President, General Counsel

Spokane, Washington  
March 28, 2023

THIS PROXY STATEMENT IS PART OF THE

### NOTICE OF ANNUAL MEETING OF SHAREHOLDERS OF THE YORK WATER COMPANY

The Annual Meeting of the York Water Company will be held at The York Water Company, 130 East Market Street, York, Pennsylvania 17401, on Monday, May 1, 2023, at 1:00 p.m. Eastern Standard Time.

The meeting will be held at the registered public accounting firm for the year ending December 31, 2023, of the Company's named executive officers; and on executive compensation; and on the frequency of advisory votes on executive compensation.

As the record date for the determination of shareholders entitled to vote at the meeting, the record date for the determination of shareholders entitled to vote at the meeting is the close of business on the day immediately preceding the day of the meeting.

Regardless of the size of your holdings, you are encouraged to vote your shares in advance of the Annual Meeting.

Please refer to the proxy card (see instructions on the Notice of Annual Meeting) for more information on how to request a printed proxy card;

or by voting by proxy card;

or by voting via the Internet; or

or by voting in person at the Annual Meeting or by proxy card if you are a shareholder whose shares are held in the name of a depository or broker (that is, your bank, broker or

continued and evolving regulations regarding COVID-19, the Company's directors and officers may meet in a different location or virtually. The Appell Center for the Performing Arts, 1000 West 1st Avenue, Spokane, WA 99201, is the designated meeting location for those that are unvaccinated. Any COVID-19 related policies are available at [covid-center.org/plan-your-visit/covid-policies](https://www.yorkwater.com/covid-center.org/plan-your-visit/covid-policies) prior to the meeting if you plan to attend.

A complimentary lunch will be provided beginning at 11:30 a.m. on Monday, May 1, 2023, at the York Water Company. If you will be joining us for the meeting, please let us know by returning the enclosed response card.

Thank you!

Gregory C. Hesler  
Chairman of the Board of Directors.



# Annual Report to the SEC (10-K)

THE YORK WATER COMPANY  
130 EAST MARKET STREET  
YORK, PENNSYLVANIA 17401

March 21, 2023

## DIRECTOR COMPENSATION

LDERS  
COMPANY

### Summary Compensation Table — 2022

Name and Principal Position	Year	Salary <sup>(1)</sup>	Stock Awards <sup>(2)</sup> (\$)	Non-Equity Incentive Plan Compensation <sup>(3)</sup> (\$)	Change in Pension and Non-Qualified Deferred Compensation Earnings <sup>(4)</sup> (\$)	All Other Compensation <sup>(5)</sup> (\$)	Total Compensation (\$)
<b>D. P. Vermillion</b> President & CEO	2022	\$838,077	\$2,923,157	\$951,228	N/A	\$32,917	\$4,745,379
	2021	\$769,038	\$1,986,445	\$855,587	\$ 905,751	\$60,718	\$4,577,539
	2020	\$737,693	\$1,778,775	\$184,423	\$2,290,317	\$12,875	\$5,004,033
<b>M. T. Thies</b> Executive Vice President, CFO & Treasurer	2022	\$473,153	\$ 852,877	\$349,073	N/A	\$18,300	\$1,693,404
	2021	\$461,615	\$ 653,436	\$333,818	\$ 197,793	\$17,400	\$1,664,062
	2020	\$452,615	\$ 663,720	\$ 73,550	\$ 386,704	\$17,100	\$1,593,688
<b>H. L. Rosentrater</b> Sr. Vice President Chief Operating Officer	2022	\$365,858	\$ 572,377	\$249,152	N/A	\$13,725	\$1,201,111
	2021	\$343,462	\$ 345,109	\$229,269	\$ 147,079	\$13,050	\$1,077,969
	2020	\$329,385	\$ 270,784	\$ 48,408	\$ 403,216	\$12,825	\$1,064,618
<b>J. R. Thackston</b> Sr. Vice President, & Chief Strategy & Clean Energy Officer	2022	\$359,936	\$ 572,377	\$245,119	N/A	\$16,131	\$1,193,563
	2021	\$343,463	\$ 428,659	\$229,270	\$ 152,208	\$15,196	\$1,168,796
	2020	\$332,692	\$ 439,654	\$ 49,904	\$ 501,700	\$14,611	\$1,338,561
<b>K. J. Christie</b> Sr. Vice President, External Affairs and Chief Customer Officer	2022	\$354,307	\$ 572,377	\$241,286	N/A	\$13,725	\$1,181,695
	2021	\$343,461	\$ 345,109	\$229,269	\$ 186,490	\$13,050	\$1,117,379
	2020	\$333,462	\$ 270,784	\$ 50,019	\$ 384,920	\$12,825	\$1,052,011

Pursuant to our Insider Trading Policy, directors, officers and employees are prohibited from engaging in short-sales, zero-cost collars, forward sales contracts, pledging, hedging or otherwise offsetting any decrease in the market value of their Company shares.

NOTICE  
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- affiliate
- (3) hold ar
- (4) hold ar
- (5) transac

Sharehold

Your vote  
by prompt  
return enr  
your share  
instruction

We cordial

By Order o



Gregory C  
Senior Vice

Spokane, V  
March 28,

# Beginning the Regulatory Audit


## Preliminary Due Diligence

Review publicly available reports:

- Annual Report to Shareholders
- Annual Report to the SEC (10-K)
- Annual Report to the FERC (Form 1,2 & 6)
- State Required Reports



# FERC Form 1 - Annual Report

THIS FILING IS Item 1: <input checked="" type="checkbox"/> An Initial (Original) Submission    OR <input type="checkbox"/> Resubmission No. ____	Form 1 Approved OMB No. 1902-0021 (Expires 11/30/2022) Form 1-F Approved OMB No. 1902-0029 (Expires 11/30/2022) Form 3-Q Approved OMB No. 1902-0205 (Expires 11/30/2022)
	
<p><b>FERC FINANCIAL REPORT</b>  <b>FERC FORM No. 1: Annual Report of Major Electric Utilities, Licensees and Others and Supplemental Form 3-Q: Quarterly Financial Report</b></p>	
<div style="border: 1px solid black; padding: 5px; font-size: small;">                     These reports are mandatory under the Federal Power Act, Sections 3, 4(a), 304 and 309, and 18 CFR 141.1 and 141.400. Failure to report may result in criminal fines, civil penalties and other sanctions as provided by law. The Federal Energy Regulatory Commission does not consider these reports to be of confidential nature.                 </div>	
Exact Legal Name of Respondent (Company) Puget Sound Energy, Inc.	Year/Period of Report End of <u>2019/Q4</u>
FERC FORM No. 1/3-Q (REV. 02-04)	

- Number of Pages
  - 260 Pages - 520 Pages
  
- Includes:
  - Operating Data
  - Financial Data
  
- Report Presents
  - Total Company
  - Over 10,000 data points
  - Does not include State-Only Information for multistate companies

# FERC Form 1 - Annual Report

THIS FILING IS

Item 1:  An Initial (Original) Submission OR  Resubmission No. \_\_\_\_\_

Form 1 Approved  
OMB No. 1902-0021  
(Expires 11/30/2022)

Form 1-F Approved  
OMB No. 1902-0029  
(Expires 11/30/2022)

Form 3-Q Approved  
OMB No. 1902-0205  
(Expires 11/30/2022)



Name of Respondent Puget Sound Energy, Inc.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report 04/17/2020	Year/Period of Report End of 2019/Q4
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IMPORTANT CHANGES DURING THE QUARTER/YEAR

Give particulars (details) concerning the matters indicated below. Make the statements explicit and precise, and number them in accordance with the inquiries. Each inquiry should be answered. Enter "none," "not applicable," or "NA" where applicable. If information which answers an inquiry is given elsewhere in the report, make a reference to the schedule in which it appears.

- Changes in and important additions to franchise rights: Describe the actual consideration given therefore and state from whom the franchise rights were acquired. If acquired without the payment of consideration, state that fact.
- Acquisition of ownership in other companies by reorganization, merger, or consolidation with other companies: Give names of companies involved, particulars concerning the transactions, name of the Commission authorizing the transaction, and reference to Commission authorization.
- Purchase or sale of an operating unit or system: Give a brief description of the property, and of the transactions relating thereto, and reference to Commission authorization, if any was required. Give date journal entries called for by the Uniform System of Accounts were submitted to the Commission.

Name of Respondent Puget Sound Energy, Inc.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report 04/17/2020	Year/Period of Report End of 2019/Q4
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- Changes in and important additions to franchise rights: Describe the actual consideration given therefore and state from whom the franchise rights were acquired. If acquired without the payment of consideration, state that fact.
- Acquisition of ownership in other companies by reorganization, merger, or consolidation with other companies: Give names of companies involved, particulars concerning the transactions, name of the Commission authorizing the transaction, and reference to Commission authorization.

PAGE 108 INTENTIONALLY LEFT BLANK  
SEE PAGE 109 FOR REQUIRED INFORMATION.

- State the estimated annual effect and nature of any important wage scale changes during the year.
- State briefly the status of any materially important legal proceedings pending at the end of the year, and the results of any such proceedings culminated during the year.
- Describe briefly any materially important transactions of the respondent not disclosed elsewhere in this report in which an officer, director, security holder reported on Page 104 or 105 of the Annual Report Form No. 1, voting trustee, associated company or known associate of any of these persons was a party or in which any such person had a material interest.

Exact Legal Name of Respondent (Company) Puget Sound Energy, Inc.	Year/Period of Report End of 2019/Q4
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# FERC Form

## Report of Independent Auditors

(THIS FILING IS

Item 1:  An Initial (Original) Submission OR  Resubmission No. \_\_\_\_\_

To the Board of Directors and Management of Puget Sound Energy, Inc.

We have audited the accompanying financial statements of Puget Sound Energy, Inc. which comprise the

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Puget Sound Energy, Inc. as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with the accounting requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases described in Note 1.

### FERC FINANCIAL REPORT

#### Auditors' Responsibility

### Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. As described in Note 1 to the financial statements, the financial statements are prepared by Puget Sound Energy, Inc. on the basis of the accounting requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Federal Energy Regulatory Commission. Our opinion is not modified with respect to this matter.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Puget Sound Energy, Inc. as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with the accounting requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases described in Note 1.

Exact Legal Name of Respondent (Company)  
Puget Sound Energy, Inc.

Year/Period  
End of



# Basis of Accounting

- ...the financial statements... have been prepared in accordance with the accounting requirements of the Federal Energy Regulatory Commission (FERC)...which is a **comprehensive basis of accounting** other than accounting principles generally accepted in the United States of America (U.S. GAAP).

## *Basis of Accounting*

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. As described in Note 1 to the financial statements, the financial statements are prepared by Puget Sound Energy, Inc. on the basis of the accounting requirements of the Federal Energy Regulatory Commission as set forth in its applicable Uniform System of Accounts and published accounting releases, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Federal Energy Regulatory Commission. Our opinion is not modified with respect to this matter.

# Basis of Accounting

- ...the financial statements in accordance with the accounting principles generally accepted in the United States (U.S. GAAP) on a comprehensive basis of accounting.

Other Comprehensive Bases of Accounting  
OCBOA

## AU-C Section 800

### *Special Considerations—Audits of Financial Statements Prepared in Accordance With Special Purpose Frameworks*

Source: SAS No. 122; SAS No. 125; SAS No. 127; SAS No. 132; SAS No. 139.

Effective for audits of financial statements for periods ending on or after December 15, 2012, unless otherwise indicated.

#### Introduction

#### Scope of This Section

This section applies to audits of financial statements. This section is written in the context of a complete set of financial statements. This section applies to audits of financial statements prepared in accordance with a special purpose framework, such as a regulatory, a contractual, or an internal reporting framework, to address all special circumstances. (Ref: par. .A1–.A5) This section applies to audits of financial statements for periods ending on or after December 15, 2012, by SAS No. 127. As amended, effective for audits of financial statements prepared in accordance with a special purpose framework for periods ending on or after December 15, 2021, by SAS No. 139.]

**.02** This section is written in the context of a complete set of financial statements prepared in accordance with a special purpose framework. Section 805, *Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*, addresses special considerations relevant to an audit of a single financial statement or of a specific element, account, or item of a financial statement.

**.03** Section 570, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*, applies to audits of special purpose financial statements, as discussed in paragraph .14 of this section. [As amended, effective for audits of financial statements prepared in accordance with a special purpose framework for periods ending on or after December 15, 2021, by SAS No. 139.]

**.04** Section 806, *Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements*, addresses the auditor's responsibility and the form and content of the report when the auditor is requested to report on the entity's compliance with aspects of contractual agreements or regulatory requirements in connection with the audit of financial statements.





# Basis of Accounting

## ***Special Purpose Financial Statements and Special Purpose Frameworks*** ***(Ref: par. .07)***

**.A6** Certain regulators, including state and local government legislators, regulatory agencies, or departments, require financial statements to be prepared in accordance with a financial reporting framework that is based on a framework promulgated by an authorized or recognized standard-setting organization (for example, FASB or GASB), but does not include all of the requirements of that framework. Such frameworks are regulatory bases of accounting, as described in paragraph .07. In some circumstances, however, the cash or tax basis of accounting may be permitted by a regulator. For purposes of this section, the cash and tax bases of accounting are not regulatory bases of accounting. [Paragraph renumbered and amended, effective for audits of financial statements for periods ending on or after December 15, 2012, by SAS No. 127. Paragraph subsequently renumbered and amended, effective for audits of financial statements prepared in accordance with a special purpose framework for periods ending on or after December 15, 2021, by SAS No. 139.]

*tinue as a Going Concern*, applies to audits of special purpose financial statements, as discussed in paragraph .14 of this section. [As amended, effective for audits of financial statements prepared in accordance with a special purpose framework for periods ending on or after December 15, 2021, by SAS No. 139.]

**.04** Section 806, *Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements*, addresses the auditor's responsibility and the form and content of the report when the auditor is requested to report on the entity's compliance with aspects of contractual agreements or regulatory requirements in connection with the audit of financial statements.

UNITED STATES OF AMERICA 62, ferc 61,299  
FEDERAL ENERGY REGULATORY COMMISSION

18 CFR Parts 101 and 201

[Docket No. RM92-1-000]

Revisions to Uniform Systems of Accounts  
to Account for Allowances under the  
Clean Air Act Amendments of 1990  
and Regulatory-Created Assets and Liabilities  
and to Form Nos. 1, 1-F, 2 and 2-A

ORDER NO. 552

(Issued March 31, 1993)

AGENCY: Federal Energy Regulatory Commission

If GAAP conflicts with the accounting and financial reporting needed by the Commission to fulfill its statutory responsibilities, then GAAP must yield.

Order No. 552, 62 FERC 61,299, (March 31, 1993)

EFFECTIVE DATE: The final rule is effective January 1, 1993. The information collection provisions, however, will not become effective until approved by the Office of Management and Budget. Notice of this date will be published in the Federal Register.

Docket No. RM92-1-000

- 2 -

FOR FURTHER INFORMATION CONTACT:

Gregory A. Berson  
Office of Chief Accountant  
Page 1

UNITED STATES OF AMERICA 62, ferc 61,299  
FEDERAL ENERGY REGULATORY COMMISSION

18 CFR Parts 101 and 201

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Revisions to Uniform Systems of Accounts  
to Account for Allowances under the  
Clean Air Act Amendments of 1990  
and Regulatory-Created Assets and Liabilities  
and to Form Nos. 1, 1-F, 2 and 2-A

ORDER NO. 552

(Issued March 31, 1993)

...GAAP cannot control when it would prevent the Commission from carrying out its duty to provide jurisdictional companies with the opportunity to earn fair return on their investment and to protect ratepayers from excessive charges and discriminatory treatment.

Order No. 552, 62 FERC 61,299, (March 31, 1993)

effective until approved by the Office of Management and Budget.  
Notice of this date will be published in the Federal Register.

Docket No. RM92-1-000

- 2 -

FOR FURTHER INFORMATION CONTACT:

Gregory A. Berson  
Office of Chief Accountant  
Page 1



# Review of Data

## Poll Question

Is it reasonable and acceptable for a regulatory auditor to rely on the work and certification of a certified public accountant?

1. Yes
2. No
3. Sometimes
4. All of the above



# Review of Data

**In our opinion**, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company ... and the results of its operations and its cash flows ... in conformity with accounting principles generally accepted in the United States of America.

Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting...



**YES** - It is reasonable and acceptable for a regulatory auditor to rely on the work and certification of a certified public accountant.

# Review of Data

Is it reasonable and acceptable for a regulatory auditor to rely on the work performed by a certified public accountant related to a **compilation or review**?



## Compilation

**No** - A **compilation** does not provide any form of assurance. No testing is performed, and the accountant is not required to be independent.

*“The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.”*

# Review of Data

Is it reasonable and acceptable for a regulatory auditor to rely on the work performed by a certified public accountant related to a **compilation or review**?



## Review

**No** – All though a **review** conducts some degree of testing, it results in the conclusion:

*“...the accountant is not aware of any needed material modification that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.”*

# Understand the Accounting System

## Axiom

### Regulatory accounting is not GAAP accounting with a few tweaks.

- The both use the same techniques, methods, and approaches for the vast majority of transactions differences have developed.
- Purpose of GAAP accounting is to protect investors whereas the purpose of regulatory accounting is to protect ratepayers and the company.



# Understand the Accounting System

- 1. Optional accounting.** GAAP may permit optional accounting for certain types of transactions but for regulatory purposes, a regulator may require a single uniform method or methods.
- 2. Cost definition.** Under regulatory accounting certain costs can be deferred, and not expensed in the period incurred. For example, a deferred return on equity capital can be capitalized, and allow recovery in later recovery in rates. Under GAAP, equity return is not a cost and cannot be deferred **Except** for regulated utilities!
- 3. Time periods.** Certain types of cost can be allocated to different time periods for ratemaking purposes than provided for under GAAP.





# Understand the Uniform System of Accounts

USoA establish:

- Account

The first interstate USoA was established in 1922. By NARUC. National Association of Railroad

- In the 1930's the Federal Power Commission (predecessor of FERC) issued their own USoA.

National Association of Regulatory  
Utility Commissioners (NARUC)

**WATER UTILITY UNIFORM SYSTEM OF  
ACCOUNTS—  
Classes A, B & C**

The Federal Energy Regulatory  
Commission (FERC)

**Title 18--Conservation of Power and  
Water Resources CHAPTER I-**

**PART 201--UNIFORM SYSTEM OF  
ACCOUNTS PRESCRIBED FOR NATURAL  
GAS COMPANIES SUBJECT TO THE  
PROVISIONS OF THE NATURAL GAS ACT**

The Federal Energy Regulatory  
Commission (FERC)

**Title 18 C.F.R. Conservation of  
Power and Water Resources**

**PART 101—UNIFORM SYSTEM OF  
ACCOUNTS PRESCRIBED FOR  
PUBLIC UTILITIES AND LICENSEES  
SUBJECT TO THE PROVISIONS OF  
THE FEDERAL POWER ACT**

FEDERAL COMMUNICATIONS COMMISSION (FCC)  
**47 C.F.R. PART 32--UNIFORM SYSTEM OF  
ACCOUNTS FOR TELECOMMUNICATIONS  
COMPANIES**



The Federal Energy Regulatory Commission (FERC)

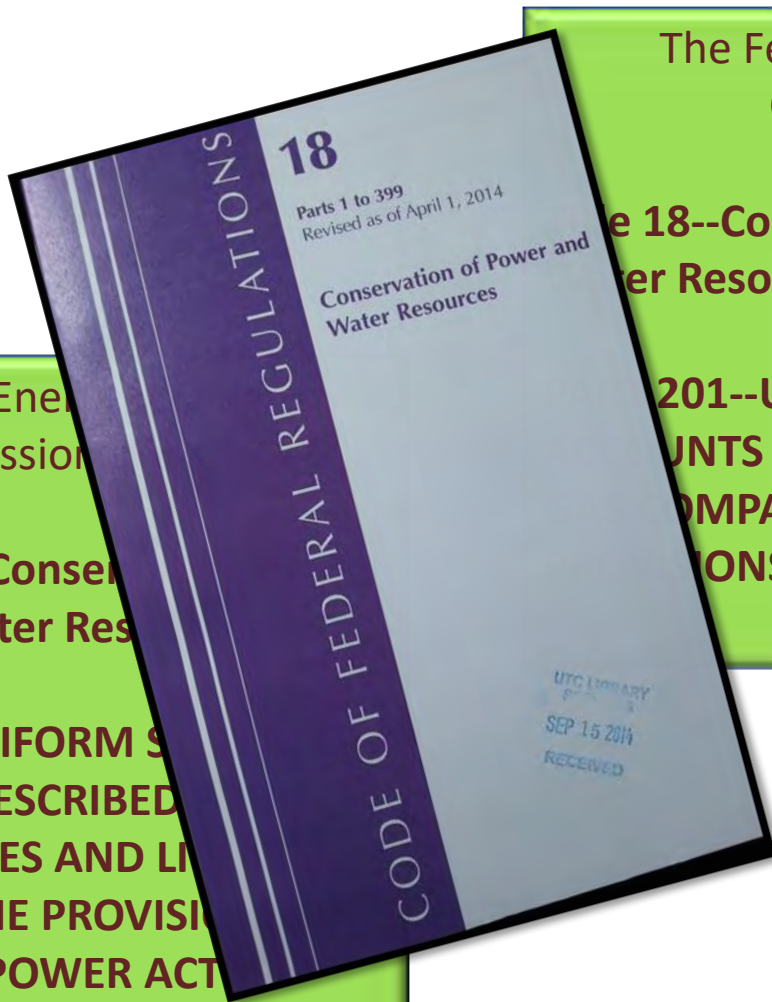
**Title 18--Conservation of Power and Water Resources CHAPTER I-**

**201--UNIFORM SYSTEM OF ACCOUNTS PRESCRIBED FOR NATURAL GAS COMPANIES SUBJECT TO THE PROVISIONS OF THE NATURAL GAS ACT**

The Federal Energy Regulatory Commission

**Title 18 C.F.R. Conservation of Power and Water Resources**

**PART 101—UNIFORM SYSTEM OF ACCOUNTS PRESCRIBED FOR NATURAL GAS COMPANIES SUBJECT TO THE PROVISIONS OF THE NATURAL GAS ACT**



# Structure of a Uniform System of Accounts

- Authority and Application
- Definitions
- Accounting Instructions
  - General Instructions
  - Utility Plant Instructions
  - Operating Expense Instructions
- Chart of Accounts (COA)
- Account Descriptions

# Structure of a Uniform System of Accounts

- **Authority and Application**
- Definitions
- Accounting Instructions
  - General Instructions
  - Utility Plant Instructions
  - Operating Expense Instructions
- Chart of Accounts (COA)
- Account Descriptions

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SUBCHAPTER C—

PART 101—UNIFORM SYSTEM OF ACCOUNTS PRESCRIBED FOR PUBLIC UTILITIES AND LICENSEES UNDER THE FEDERAL POWER ACT SUBJECT TO THE PROVISIONS OF THE FEDERAL POWER ACT

AUTHORITY: 16 U.S.C. 791a-825r, U.S.C. 9701; 42 U.S.C. 7101-7352, 7601-7602.

SOURCE: Order 218, 25 FR 5014.

EDITORIAL NOTE: For FEDERAL REGISTER citations affecting part 101, see the CFR Sections Affected, which appear in the Finding Aids section of the print edition and at www.fdsys.gov.

EFFECTIVE DATE NOTE: At 18006, Apr. 7, 1993, part 101 was redesignated Definitions 30 through 39 and adding new definitions; adding paragraph 21 under the instructions; adding Accounts 158 and 254 under Balance Sheet and Income Accounts; adding Accounts 407.3, 407.4, 411 and 509 under Operation and Maintenance Accounts. The added text contains information collection and reporting requirements and will not be effective until approval has been given by the Office of Management and Budget.

NOTE: Order 141, 12 FR 8503, Dec. 19, 1947, prescribes in part as follows:

Prescribing a system of accounts for public utilities and licensees under the Federal Power Act. The Federal Power Commission acting pursuant to authority granted by the Federal Power Act, particularly sections 301(a), 304(a), and 309, and paragraph (13) of section 3, section 4(b) thereof, and finding such action necessary and appropriate for carrying out the provisions of said act, hereby adopts the accompanying system of accounts entitled "Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act," and the rules and regulations contained therein; and *it is hereby ordered*:

(a) That said system of accounts and said rules and regulations contained therein be and the same are hereby prescribed and promulgated as the system of accounts and rules and regulations of the Commission to be kept and observed by public utilities subject to the jurisdiction of the Commission and by licensees holding licenses issued by the Commission, to the extent and in the manner set forth therein;

(b) That said system of accounts and rules and regulations therein contained shall, as to all public utilities now subject to the ju-

NOTE: Order 141, 12 FR 8503, Dec. 19, 1947, provides in part as follows:

*Prescribing a system of accounts for public utilities and licensees under the Federal Power Act.* The Federal Power Commission acting pursuant to authority granted by the Federal Power Act, particularly sections 301(a), 304(a), and 309, and paragraph (13) of section 3, section 4(b) thereof, and finding such action necessary and appropriate for carrying out the provisions of said act, hereby adopts the accompanying system of accounts entitled "Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act," and the rules and regulations contained therein; and *It is hereby ordered*:

(a) That said system of accounts and said rules and regulations contained therein be and the same are hereby prescribed and promulgated as the system of accounts and rules and regulations of the Commission to

tion to the public. This system of accounts shall also apply to agencies of the United States engaged in the generation and sale of electric energy for ultimate distribution to the public, so far as may be practicable, in accordance with applicable statutes.

In accordance with the requirements of section 3 of the Act (49 Stat. 839; 16 U.S.C. 796(13)), the "classification of investment in road and equipment of steam roads, issue of 1914, Interstate Commerce Commission", is published and promulgated as a part of the accounting rules and regulations of the Commission, and a copy thereof appears as part 103 of this chapter. Irrespective of any rules and regulations contained in this system of accounts, the cost of original projects licensed under the Act, and also the cost of additions thereto and betterments thereof, shall be determined under the rules and principles as defined and interpreted in said classification of the Interstate Commerce Commission so far as applicable.





SUBCHAPTER C—ACCOUNTS, FEDERAL POWER ACT

PART 101—UNIFORM SYSTEM OF ACCOUNTS PRESCRIBED FOR PUBLIC UTILITIES AND LICENSEES SUBJECT TO THE PROVISIONS OF THE FEDERAL POWER ACT

AUTHORITY: 16 U.S.C. 791a-825r, 2601-2645; 31 U.S.C. 9701; 42 U.S.C. 7101-7352, 7651-7651o.

SOURCE: Order 218, 25 FR 5014, June 7, 1960.

EDITORIAL NOTE: For FEDERAL REGISTER citations affecting part 101, see the List of CFR Sections Affected, which appears in the Finding Aids section of the printed volume and at www.fdsys.gov.

EFFECTIVE DATE NOTE: At 58 FR 18004-

18006, Apr. 7, 1993, redesignating Definitions through 39 and adding paragraph 40 and 254 under Balancing Accounts 40 under Income Accounts 509 under Operation Accounts. Information collection requirements and until approval has Management and

NOTE: Order 14 provides in part: Prescribing a system of accounts for public utilities and licensees under the Federal Power Act. The Federal Power Act, pursuant to authority under section 304(a), and 309, 3, section 4(b), the provisions necessary to carry out the provisions of the Act, and the accompanying regulations titled "Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Federal Power Act," as contained therein.

(a) That said system of accounts and rules and regulations therein shall, as to all public utilities now subject to the jurisdiction of the Commission and as to all present licensees, become effective on January 1, 1937, and as to public utilities and licensees which may hereafter become subject to the jurisdiction of the Commission, they shall become effective as of the date when such public utility becomes subject to the jurisdiction of the Commission or on the effective date of the license;

(b) That a copy of said system of accounts and rules and regulation contained therein be forthwith served upon each public utility subject to the jurisdiction of the Commission, and each licensee or permittee holding a license or permit from the Commission.

This system of accounts supersedes the system of accounts prescribed for licensees under the Federal Water Power Act; and Order No. 13, entered November 20, 1922, prescribing a system of accounts for licensees under the Federal Water Power Act.

jurisdiction of the Commission and as to all present licensees, become effective on January 1, 1937, and as to public utilities and licensees which may hereafter become subject to the jurisdiction of the Commission, they shall become effective as of the date when such public utility becomes subject to the jurisdiction of the Commission or on the effective date of the license;

(c) That a copy of said system of accounts and rules and regulation contained therein be forthwith served upon each public utility subject to the jurisdiction of the Commission, and each licensee or permittee holding a license or permit from the Commission.

This system of accounts supersedes the system of accounts prescribed for licensees under the Federal Water Power Act; and Order No. 13, entered November 20, 1922, prescribing a system of accounts for licensees under the Federal Water Power Act.

*Applicability of system of accounts.* This system of accounts is applicable in principle to all licensees subject to the Commission's accounting requirements under the Federal Power Act, and to all public utilities subject to the provisions of the Federal Power Act. The Commission reserves the right, however, under the provisions of section 301(a) of the Federal Power Act to classify such licensees and public utilities and to prescribe a system of classification of accounts to be kept by and which will be convenient for and meet the requirements of each class.

This system of accounts is applicable to public utilities, as defined in this part, and to licensees engaged in the generation and sale of electric energy for ultimate distribution to the public.

and regulations contained in the system of accounts, the cost of original projects licensed under the Act, and also the cost of additions thereto and betterments thereof, shall be determined under the rules and principles as defined and interpreted in said classification of the Interstate Commerce Commission so far as applicable.

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# Structure of a Uniform System of Accounts

- Authority and Application
- **Definitions**
- Accounting Instructions
  - General Instructions
  - Utility Plant Instructions
  - Operating Expense Instructions
- Chart of Accounts (COA)
- Account Descriptions



CROSS REFERENCES: For application of uniform system of accounts to Class C and D public utilities and licensees, see part 104 of this chapter. For statements and reports, see part 141 of this chapter.

ship or voting of securities, common directors, officers, or stockholders, voting trusts, holding trusts, associated companies, contract or any other direct or indirect means.

Uniform System of Accounts Prescribed for Public Utilities and Liabilities

6. *Book cost* means the amount at which property is recorded in these accounts without deduction of related adjustments for accrued depreciation.

31. *Regulatory Assets and Liabilities* are assets and liabilities that result from rate actions of regulatory agencies. Regulatory assets and liabilities arise from specific revenues, expenses, gains, or losses that would have been included in net income determination in one period under the general requirements of the Uniform System of Accounts but for it being probable:

A. that such items will be included in a different period(s) for purposes of developing the rates the utility is authorized to charge for its utility services;

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control with, the accounting company.  
B. *Control* (including the terms *controlling*, *controlled by*, and *under common control with*) means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a company, whether such power is exercised through one or more intermediary companies, or alone, or in conjunction with, or pursuant to an agreement, and whether such power is established through a majority or minority owner-

action, as distinguished from an action involving the issuance of common stock in a merger or a pooling of interest, the value of such consideration shall be determined on a cash basis.  
10. *Cost of removal* means the cost of demolishing, dismantling, tearing down or otherwise removing electric plant, including the cost of transportation and handling incidental thereto. It does not include the cost of removal

# Structure of a Uniform System of Accounts

- Authority and Application
- Definitions
- **Accounting Instructions**
  - **General Instructions**
  - **Utility Plant Instructions**
  - **Operating Expense Instructions**
- Chart of Accounts (COA)
- Account Descriptions

#### 4. Accounting Period.

Each utility shall keep its books on a monthly basis so that for each month all transactions applicable thereto, as nearly as may be ascertained, shall be entered in the books of the utility. Amounts applicable or assignable to specific utility departments shall be so segregated monthly. Each utility shall close its books at the end of each calendar year unless otherwise authorized by the Commission.

#### 5. Submittal of Questions.

To maintain uniformity of accounting, utilities shall submit questions of doubtful interpretation to the Commission for consideration and decision.

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- 100-199 Assets and other debits.
- 200-299 Liabilities and other credits.
- 300-399 Plant accounts.
- 400-432, 434-435 Income accounts.
- 433, 436-439 Retained earnings accounts.
- 440-459 Revenue accounts.
- 500-599 Production, transmission and distribution expenses.

### General Instructions

Each utility shall keep its books on a monthly basis so that for each month all transactions applicable thereto, as nearly as may be ascertained, shall be entered in the books of the utility. Amounts applicable or assignable to specific utility departments shall be so segregated monthly. Each utility shall close its books at the end of each calendar year unless otherwise authorized by the Commission.

of utilities.  
of applying the system prescribed by the Commission, electric utilities and licensees shall be divided into classes, as follows:  
Utilities and licensees that had total sales in each of the last three consecutive years, sales or transmission served any one or more of the following:  
on megawatt-hours of sales for  
vatt-hours of sales for  
vatt-hours of power expended; or  
vatt-hours of wheeling (series plus losses).  
Utilities and licensees classified as *Major* (as defined) had total sales in three consecutive years of one million megawatt-hours or more.

which cable  
books or records unless the destruction hereof is permitted by rules and regulations of the Commission.

1. For purpose of applying the system of accounts prescribed by the Commission, electric utilities and licensees are divided into classes, as follows:  
(1) *Major*. Utilities and licensees that had, in each of the last three consecutive years, sales or transmission served any one or more of the following:  
each of the preceding years shall exceed the upper limit, or be less than the lower limit of the classification previously applicable to the utility.



# Structure of a Uniform System of Accounts

- Authority and Application
- Definitions
- Accounting Instructions
  - General Instructions
  - Utility Plant Instructions
  - Operating Expense Instructions
- **Chart of Accounts (COA)**
- **Account Descriptions**

Federal Energy Regulatory Commission

accounts, and distributed therefrom to the appropriate account. If rents cover property used for more than one function, such as production and transmission, or by more than one department, the rents shall be apportioned to the appropriate rent expense or clearing accounts of each department on an actual, or, if necessary, an estimated basis.

B. When a portion of property or equipment rented from others for use in connection with utility operations is subleased, the revenue derived from such subleasing shall be credited to the rent revenue account in operating revenues; provided, however, that in case the rent was charged to a clearing account, amounts received from subleasing the property shall be credited to the clearing account.

- 105 Completed construction not classified Electric (Major only).
- 107 Construction work in progress—Electric
- 108 Accumulated provision for depreciation of electric utility plant (Major only)
- 109 [Reserved]
- 110 Accumulated provision for depreciation and amortization of electric utility plant (Nonmajor only).
- 111 Accumulated provision for amortization of electric utility plant (Major only)
- 112-113 [Reserved]
- 114 Electric plant acquisition adjustments
- 115 Accumulated provision for amortization of electric plant acquisition adjustments (Major only).
- 116 Other electric plant adjustments
- 118 Other utility plant.
- 119 Accumulated provision for depreciation and amortization of other utility plant
- 120.1 Nuclear fuel in process of reprocessing, enrichment and fabrication (Major only).
- 120.2 Nuclear fuel materials and assemblies (Major only).

Balance Sheet Chart of Accounts

ASSETS AND OTHER DEBITS

I. UTILITY PLANT

- 101 Electric plant in service (Major only).
- 101.1 Property under capital leases.
- 102 Electric plant purchased or sold.
- 103 Experimental electric plant unclassified (Major only).
- 103.1 Electric plant in process of reclassification (Nonmajor only).
- 104 Electric plant leased to others.
- 106 Electric plant held for future use.

Balance Sheet Chart of Accounts

ASSETS AND OTHER DEBITS

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- 104 Electric plant leased to others.
- 106 Electric plant held for future use.

Federal Energy Regulatory Commission

Pt. 101

- 283 Accumulated deferred income taxes—Other.

Balance Sheet Accounts

101 Electric plant in service (Major only).

A. This account shall include the original cost of electric plant in accounts 301 to 399, prescribed herein, owned and used by the electric utility operating in an expectation of life more than one year from date of installation, including such property held by the utility but held for construction costs of completed construction costs of electric plant actually in service.)

B. The cost of additions to and betterments of property leased from others, which are includible in this account, shall be recorded separately and distinct from the cost of owned property. (See electric plant instruction 6.)

101.1 Property under capital leases

A. This account shall include the amount recorded under capital leases for plant leased from others for use by the utility in its utility operations.

B. The electric property included in this account shall be classified separately according to the accounts (301 to 399) prescribed for electric plant in service.

C. Records shall be maintained with respect to each capital lease:

- (1) name of lessor, (2) basic lease term, (3) terminal date, (4) cost or fair market value of property leased, (5) future minimum lease payments, (6) executory costs, (7) value of minimum lease payments, (8) the amount representing the interest rate used, and (9) amount paid. Records shall also be maintained for plant under a lease, to which an asset retirement obligation is originally recognized for each periodic charge and credit to the asset retirement obligation, and asset retirement costs.

102 Electric plant purchased

A. This account shall be charged with the cost of electric plant acquired for use in an operating unit or system by

merger, consolidation liquidation, or otherwise, and shall be credited with the selling price of like property transferred to others pending the distribution to appropriate accounts in accordance with electric plant instruction 5.

B. Within six months from the date of acquisition or

Balance Sheet Accounts

101 Electric plant in service (Major only).

A. This account shall include the original cost of electric plant, included in accounts 301 to 399, prescribed herein, owned and used by the utility in its electric utility operations, and having an expectation of life in service of more than one year from date of installation, including such property owned by the utility but held by nominees. (See also account 106 for unclassified construction costs of completed plant actually in service.)

B. The cost of additions to and betterments of property leased from others, which are includible in this account, shall be recorded in subdivisions separate and distinct from those relating to owned property. (See electric plant instruction 6.)

101.1 Property under capital leases.

A. This account shall include the amount recorded under capital leases for plant leased from others and used by the utility in its utility operations.

B. The electric property included in this account shall be classified separately according to the detailed accounts (301 to 399) prescribed for electric plant in service.

456.1 Revenues from Electricity of C

This account shall include transmission of electricity transmission facilities of t

457.1 Regional Transmission Revenue

This account shall include received from providing schedule and dispatching service this account reimburses planning, standards development monitoring and activities. Records shall be show: (1) The services received from each of amounts billed by tariff

457.2 Miscellaneous

This account shall include reimbursements for costs transmission service performed elsewhere. Records so as to show: (1) The revenues received from (2) the amounts billed rates.

Operation and Maintenance Chart of

1. POWER PRODUCTION

A. STEAM POWER GENERATION

Operation

- 500 Operation supervision and engineering.
- 501 Fuel.
- 502 Steam expenses (Major only).
- 503 Steam from other sources.
- 504 Steam transferred.
- 505 Electric expenses.
- 506 Miscellaneous (Major only).
- 507 Rents.
- 508 Operation (Nonmajor only).
- 509 Allowances.

Maintenance

- 510 Maintenance supervision and engineering (Major only).
- 511 Maintenance of fuel (Major only).
- 512 Maintenance of steam (Major only).
- 513 Maintenance of boiler (Major only).
- 514 Maintenance of plant (Major only).
- 515 Maintenance of equipment (Nonmajor only).

1. POWER PRODUCTION EXPENSES

A. STEAM POWER GENERATION

Operation

- 500 Operation supervision and engineering.
- 501 Fuel.
- 502 Steam expenses (Major only).
- 503 Steam from other sources.
- 504 Steam transferred.
- 505 Electric expenses.
- 506 Miscellaneous (Major only).
- 507 Rents.
- 508 Operation (Nonmajor only).
- 509 Allowances.

Maintenance

- 510 Maintenance supervision and engineering (Major only).
- 511 Maintenance of fuel (Major only).
- 512 Maintenance of steam (Major only).
- 513 Maintenance of boiler (Major only).
- 514 Maintenance of plant (Major only).
- 515 Maintenance of equipment (Nonmajor only).

Operation and Maintenance Expense Accounts

500 Operation supervision and engineering.

A. For Major Utilities, this account shall include the cost of labor and expenses incurred in the general supervision and direction of the operation of steam power generating stations. Direct supervision of

501 Fuel.

A. This account shall include the cost of fuel used in the production of steam for the generation of electricity, including expenses in unloading fuel from the shipping media and handling thereof up to the point where the fuel enters the first boiler plant bunker, hopper, bucket, tank or holder of the boiler-house structure. Records shall be maintained to show the quantity, B.t.u. content and cost of each type of fuel used.

operating ash collection and disposal equipment located inside the plant.  
6. Operating boiler plant electrical equipment.



2. OTHER INCOME AND DEDUCTIONS

A. OTHER INCOME

- 415 Revenues from merchandising, jobbing, and contract work.
- 416 Costs and expenses of merchandising, jobbing, and contract work.
- 417 Revenues from nonutility operations.
- 417.1 Expenses of nonutility operations.
- 418 Nonoperating rental income.
- 418.1 Equity in earnings of subsidiary companies (Major only).
- 419 Interest and dividend income.
- 419.1 Allowance for other funds used during construction.
- 420 Investment tax credits.
- 421 Miscellaneous nonoperating income.
- 421.1 Gain on disposition of property.

B. OTHER INCOME DEDUCTIONS

- 421.2 Loss on disposition of property.
- 425 Miscellaneous amortization.
- 426 [Reserved]
- 426.1 Donations.
- 426.2 Life insurance.
- 426.3 Penalties.
- 426.4 Expenditures for certain civic, **political** and related activities.
- 426.5 Other deductions.
- Total other income deductions.
- Total Other Income and Deductions.

426.1 Donations.

This account shall include all payments or donations for charitable, social or community welfare purposes.

426.2 Life insurance.

This account shall include all payments for life insurance of officers and employees where company is beneficiary (net premiums less increase in cash surrender value of policies).

426.3 Penalties.

This account shall include payments by the company for penalties or fines for violation of any regulatory statutes by the company or its officials.

01 Operation expense.

There shall be shown under this cap-

426.4 Expenditures for certain civic, political and related activities.

This account shall include expenditures for the purpose of influencing public opinion with respect to the election or appointment of public officials, referenda, legislation, or ordinances (either with respect to the possible adoption of new referenda, legislation

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f property and property retirements

# Preliminary Procedures

- Prepare an analysis of historical financial and operating data
  - Three to five years of data,
  - Identify significant changes in plant, investment, revenues, and expenses,
  - Identify significant changes in usage, customer counts by type, miles of transmission and generation capacity.

**MIDDLESEX WATER COMPANY**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands)

<b>ASSETS</b>		December 31,	December 31,
		2019	2018
<b>UTILITY PLANT:</b>	Water Production	\$ 160,870	\$ 156,423
	Transmission and Distribution	556,517	512,202
	General	83,043	74,371
	Construction Work in Progress	75,520	32,878
	<b>TOTAL</b>	<b>875,950</b>	<b>775,874</b>
	Less Accumulated Depreciation	170,220	157,387
	<b>UTILITY PLANT - NET</b>	<b>705,730</b>	<b>618,487</b>
<b>CURRENT ASSETS:</b>	Cash and Cash Equivalents	2,230	3,705
	Accounts Receivable, net	11,908	11,762
	Unbilled Revenues	7,183	7,293
	Materials and Supplies (at average cost)	5,445	5,411
	Prepayments	2,367	2,644
	<b>TOTAL CURRENT ASSETS</b>	<b>29,133</b>	<b>30,815</b>
<b>AND OTHER ASSETS:</b>	Operating Lease Right of Use Asset	5,944	-
	Preliminary Survey and Investigation Charges	2,054	5,254
	Regulatory Assets	110,479	99,236
	Restricted Cash	44,269	1,956
	Non-utility Assets - Net	10,370	9,989
	Other	1,899	2,093
	<b>TOTAL DEFERRED CHARGES AND OTHER ASSETS</b>	<b>175,015</b>	<b>118,528</b>
	<b>TOTAL ASSETS</b>	<b>\$ 909,878</b>	<b>\$ 767,830</b>
<b>CAPITALIZATION AND LIABILITIES</b>			
<b>CAPITALIZATION:</b>	Common Stock, No Par Value	\$ 215,125	157,354
	Retained Earnings	108,667	91,433
	<b>TOTAL COMMON EQUITY</b>	<b>323,792</b>	<b>248,787</b>
	Preferred Stock	2,084	2,433
	Long-term Debt	230,777	152,851
	<b>TOTAL CAPITALIZATION</b>	<b>556,653</b>	<b>404,071</b>
<b>CURRENT LIABILITIES:</b>	Current Portion of Long-term Debt	7,178	7,343
	Notes Payable	20,000	48,500
	Accounts Payable	23,306	19,325
	Accrued Taxes	7,635	14,230
	Accrued Interest	2,031	1,289
	Unearned Revenues and Advanced Service Fees	1,211	1,036
	Other	3,620	2,640
	<b>TOTAL CURRENT LIABILITIES</b>	<b>64,981</b>	<b>94,363</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES (Note 4)</b>			
<b>DEFERRED CREDITS AND OTHER LIABILITIES:</b>	Customer Advances for Construction	23,905	22,572
	Lease Obligations	5,732	-
	Accumulated Deferred Income Taxes	54,408	47,270
	Employee Benefit Plans	34,671	30,661
	Regulatory Liabilities	69,152	79,112
	Other	2,546	2,730
	<b>TOTAL DEFERRED CREDITS AND OTHER LIABILITIES</b>	<b>190,414</b>	<b>182,345</b>
<b>CONTRIBUTIONS IN AID OF CONSTRUCTION</b>		<b>97,830</b>	<b>87,051</b>
	<b>TOTAL CAPITALIZATION AND LIABILITIES</b>	<b>\$ 909,878</b>	<b>\$ 767,830</b>

**MIDDLESEX WATER COMPANY  
CONSOLIDATED BALANCE SHEETS**

(In thousands)

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<b>TOTAL CAPITALIZATION AND LIABILITIES</b>			<b>\$ 909,878</b>	<b>\$ 767,830</b>

See Notes to Consolidated Financial Statements.

# Historical Data Analysis

- Focused Analysis
  - Year to Year
    - Absolute change
    - Percentage change
    - Changes in trends
  - Current Year
    - Financial measures
    - Ratios
    - Benchmarks
- Depending on the size of the company much of this data can be obtained directly from the company using data requests.
- Results of the analysis can help focus the audit to significant issues or changes.



# Review of Data

## Poll Question

Is there a difference between the words “Historic” and “Historical”?

1. Yes
2. No
3. Sometimes
4. All of the above



# Review of Data

## Poll Question

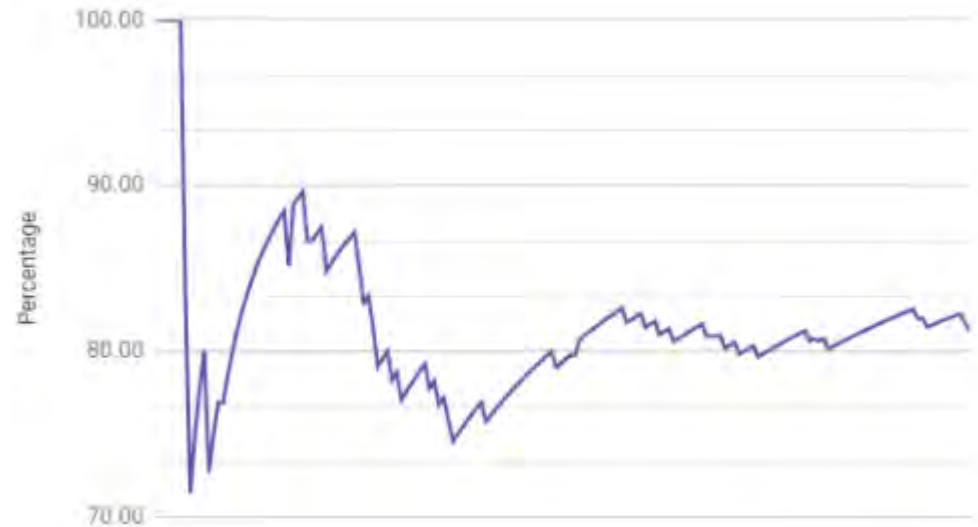
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# Trend Analysis

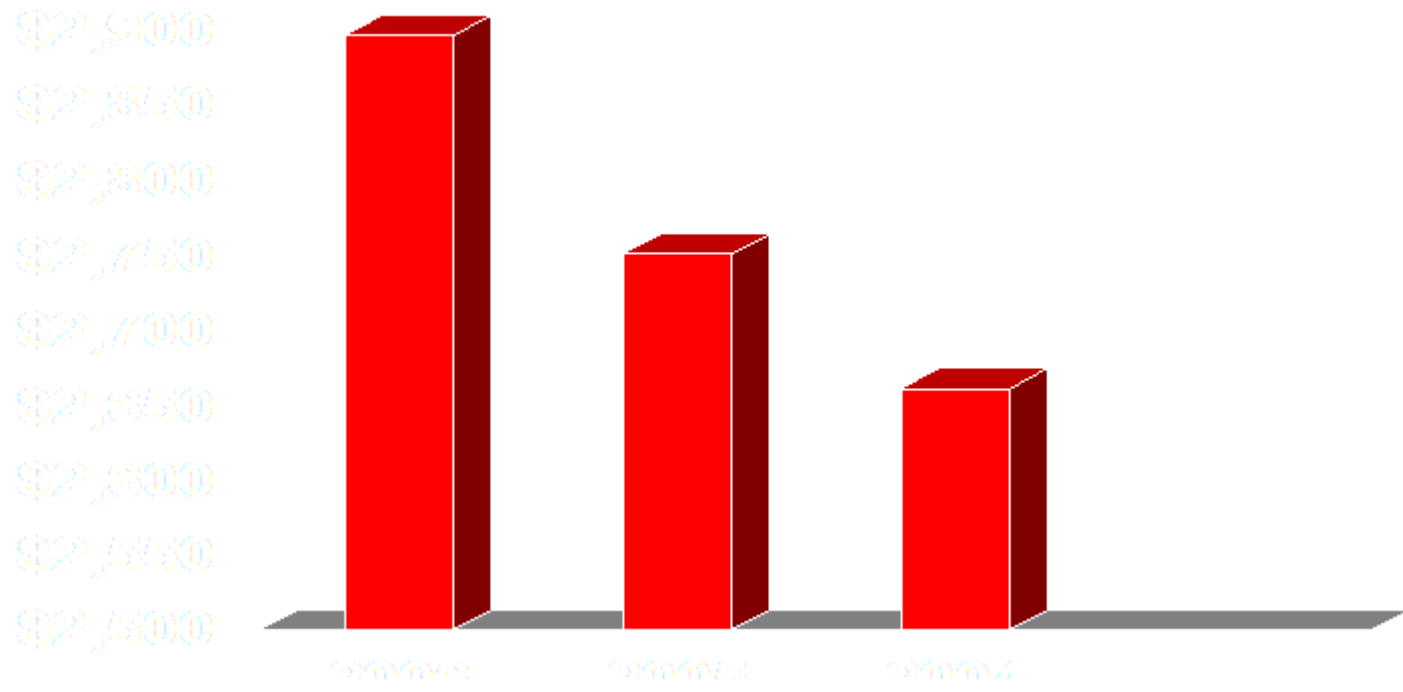
- Trends
  - ▶ declining sales
  - ▶ Increasing expenses
- Seasonal Expenses
  - ▶ Vegetation control,
  - ▶ Tree trimming,
- Expense Anomalies
  - ▶ Pandemic
  - ▶ Union strike,
  - ▶ Catastrophic Event
- Lumpy Investment Changes
  - ▶ Plant retirement,
  - ▶ Cash Flow.



# Variance Analysis

## COMPARISONS - yearly

### Average Plant Per Customer



# Year-to-year analysis

AVISTA WASHINGTON OPERATIONS		2010	2011	2012	2013
ELECTRIC PLANT IN SERVICE					
1	ELECTRIC PLANT IN SERVICE				
2	-----				
3	INTANGIBLE	\$ 28,528,246	\$ 32,643,519	\$ 33,280,638	\$ 34,281,547
4	TANGIBLE	\$ 1,209,955,913	\$ 1,853,132,420	\$ 1,929,686,446	\$ 2,022,543,617
5	-----				
6	TOTAL ELECTRIC PLANT IN SERVICE	\$ 1,238,484,159	\$ 1,885,775,939	\$ 1,962,967,084	\$ 2,056,825,164
7					
8	ACCUMULATED PROVISION FOR DEPREC. & AMORT.	\$ 960,938,591	\$ 1,012,217,393	\$ 1,065,032,018	\$ 1,123,890,020
NET OPERATING INCOME STATEMENT - ELECTRIC ONLY					
1	OPERATING REVENUES				
2	-----				
3	RESIDENTIAL SALES	\$			25,292,445
4	COMMERCIAL AND INDUSTRIAL SALES	\$			64,783,308
5	PUBLIC STREET AND HIGHWAY LIGHTING	\$			4,880,485
6	OTHER SALES TO PUBLIC AUTHORITIES	\$			-
7	SALES TO RAILROADS AND RAILWAYS	\$			-
8	INTERDEPARTMENTAL SALES	\$			883,608
9	UNBILLED REVENUES *	\$			-
0	-----				
1	TOTAL SALES TO ULTIMATE CONSUMERS	\$ 434,408,058	\$ 471,390,152	\$ 476,082,045	\$ 495,839,846
2	-----				
3	SALES FOR RESALE	\$ 167,017,546	\$ 76,990,883	\$ 96,217,670	\$ 93,476,309
4	-----				

Plant	1,238	1,885	1,963	2,056
Acc Dep	960	1,012	1,065	1,124
Net Plant	278	873	898	932
Sales	434	471	476	496
Asset Turnover	156%	54%	53%	53%

# Review of Data

## Poll Question

Is there a difference between a cost and an expense?

1. Yes
2. No
3. Sometimes
4. 4,365





# Review of Data

## Poll Question

Is there a difference between a cost and an expense?

1. Yes
2. No
3. Sometimes
4. 4,365





## Best Practices – Rate Filings

# Test Year Approaches

Please Note:

- ▶ A Test Year is sometimes described as the historical period which is used to derive a prospective rate base and income statement.
- ▶ Test Year is also described by some state commissions as the period in which rates will take effect.
- ▶ I will be using the first example, that is the Test Year here will be the historical period whereas the Rate Year will be the year in which rates take effect.

# Test Year Approaches

## Historical Test year –

Based only on historical data

No regulator currently used this approach

## Pro Forma test year --

Historical data adjusted for known and measurable changes

Sometimes incorrectly referred to as an historical test year

## Future, projected, forward, or forecasted test year --

**Partially Projected** – a portion of the period is historical, and the remaining is projected.

## Fully Projected Future Test Year

12-month period beginning the first month new rates become effective – Pennsylvania

# Appropriateness of Test Year

The test year selected by the company is a recent, partially projected, or fully-projected twelve-month period.

Audit Question: Does the proposed test year after adjustments provide a reasonable representation of the year in which rates will take effect, *the rate year*?

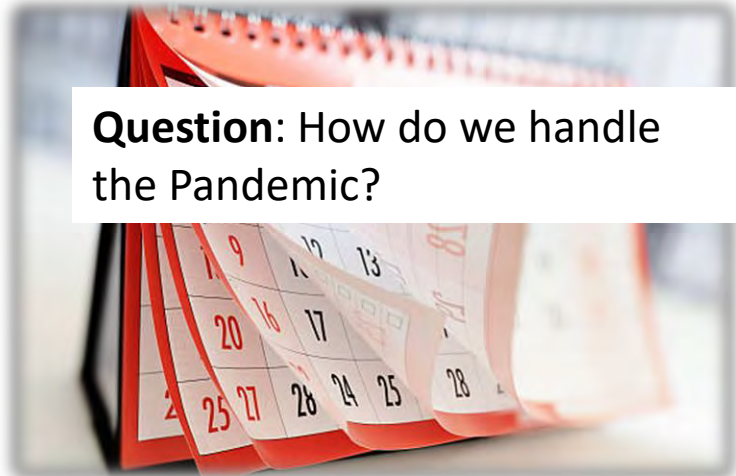


# Appropriateness of Test Year

## Is the test year stale?

Another way of saying, is the the selected period too old?

A test year must be recent enough to provide enough relevant and timely information to confidentially develop an acceptable picture of the operating and financial position of the company when new rates take effect.



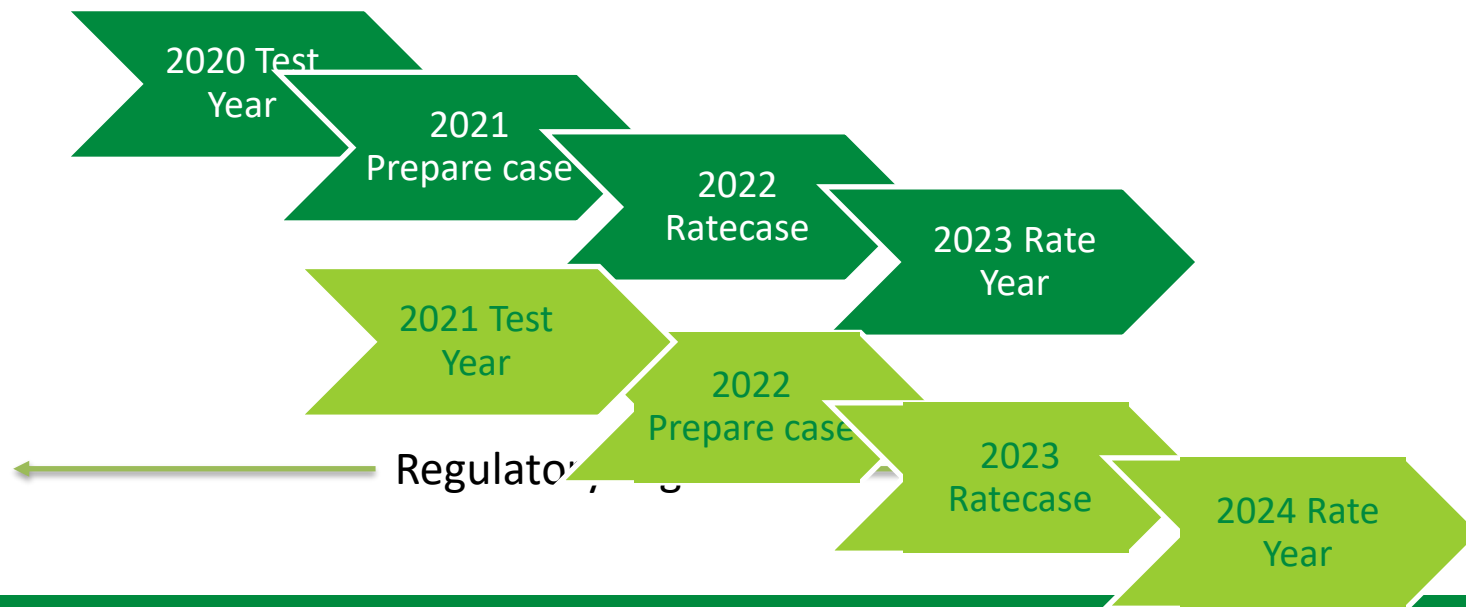
**Question:** How do we handle the Pandemic?



# Appropriateness of Test Year

## Criteria for assessing appropriateness of test year?

- Is more than a year old too old?
- Example: TY 2020 used for a 2023 rate year



# Development of a Prospective Rate Year



- Historical Results of Operations -2021
- 2021 was impacted by COVID-19

- Recognize and Project Cost Changes
  - 2022 - 2023

- Year new rates are effective
  - 2024



## Auditing the Rate Base

# Rate Base

“Determination of the rate base, the value of a utility's property used and useful in the public service minus accrued depreciation, is one of the most important and most difficult problems confronting both the commissions and the utilities.”

*Charles Phillips, Jr., The Regulation of Public Utilities*

# Rate Base

- The utility's rate base is the total of the investor funded or supplied plant, facilities, and other investments used by the utility in providing utility services to its customers.
- It is the investment base to which a fair rate of return is applied to arrive at the net operating income requirement (i.e., the amount of authorized return).

Line No.	Rate Base	
1	Total Plant in Service	875,950,000
2		
3	Accumulated Depreciation	170,220,000
4	Plant in Service Net of Accumulated Depreciation	705,730,000
5		
6	<b>Adjustments for Rate Base</b>	
7	Utility Plant Acquisition Adjustment	(4,402,000)
8	Accumulated Amortization of Acquisition Adjustment	1,540,000
9	Plant in Service Net of Depreciation and Adjustments	702,868,000
10		
11	<b>Calculating the Rate Base: Additions</b>	
12	Plant Held for Future Use	200,000
13	Prepayments (insurance, property tax, other)	775,000
14	Materials and Supplies	650,000
15	Cash Working Capital (1/8 O&M method)	57,018,864
16	Regulatory Assets (deferred)	68,125,000
17	Total Additions	126,768,864
18		
19	<b>Calculating the Rate Base: Deductions</b>	
20	Accumulated Deferred Income Taxes	(203,453,000)
21	Accumulated Deferred ITC	(220,220)
22	Contributions in Aid of Construction (CIAC, net)	(20,000,000)
23	Advances for Construction	(12,025,000)
24	Customer Deposits	(6,500,000)
25	Regulatory Liabilities (deferred)	(15,000,000)
26	Other Deferred Credits	(2,250,000)
27	Total Deductions	(259,448,220)
28		
29	<b>RATE BASE</b>	<b>570,188,644</b>



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## • Original Cost Valuation

- Plant in service is valued at the its cost at the time that it was first placed into utility service.
- The original cost remains throughout the plant's life.
- Plant purchased from another utility - the original cost remains the recorded value.

26	Other Deductible Credits	(2,250,000)
27	Total Deductions	(259,448,220)
28		
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## Other Valuations Methods

- Replacement Cost – Updated Costs / Current Technology
- Reproduction Cost – Updated Costs / Original Equipment
- Fair Value - Fixing value at “Market Value”

22	Contributions in Aid of Construction (CIAC, net)	(20,000,000)
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## Plant-in-Service Measurement

- End of Year Balances  
Recognizes the plant-in-service balance that will be providing service during the rate year. Helps offset regulatory lag.
- Average - 12 month / 13 month  
Applies the matching principle to test year plant and income statement by matching plant-in-service to expenses and revenue.

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## Expected Auditor Enquires

- Used and Useful  
Plant must be functioning, providing service and be necessary.
- Not excessive – size or capacity  
Some plant investments are naturally “lumpy” when building to meet a long-term demand.  
Cost inefficiency can be created when plant is added in small increments.

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## Expected Auditor Enquires

- Prudence  
Plant in service may be used and useful but not prudent, *i.e., placing in service a technology that will be (or is) obsolete.*
- Independent Transaction  
Cost is, or equivalent to, an arms length transaction (affiliated transactions).
- No Gold plating – Building beyond the actual need or extravagant facilities. (materiality)

28		
29	RATE BASE	570,188,644

Line No.	Rate Base	
1	Total Plant in Service	875,950,000
2		
3	Accumulated Depreciation	170,220,000
4	Plant in Service Net of Accumulated Depreciation	705,730,000

## Accumulated Depreciation

- Recovery of investment
- Not required to reinvest!

## Expected Auditor Inquires

- Basis of accounting
  - Small companies
    - Tax basis
    - Removal of fully depreciated assets

26	Other Deductions Credits	(2,200,000)
27	Total Deductions	(259,448,220)
28		
29	<b>RATE BASE</b>	<b>570,188,644</b>



Line No.	Rate Base	
1	Total Plant in Service	875,950,000
2		
3	Accumulated Depreciation	170,220,000
4	Plant in Service Net of Accumulated Depreciation	705,730,000
5		
6	<del>Adjustments for Rate Base</del>	
7	Utility Plant Acquisition Adjustment	(4,402,000)

## Acquisition Adjustment is

- The *Excess Cost* greater than *Original Cost*
- NOT “Just like *Goodwill*”
- Regulatory treatment of excess cost is Not equivalent to treatment provided under GAAP

22	Contributions in Aid of Construction (CIAC, net)	(20,000,000)
23	Advances for Construction	(12,025,000)
24	Customer Deposits	(6,500,000)
25	Regulatory Liabilities (deferred)	(15,000,000)
26	Other Deferred Credits	(2,250,000)
27	Total Deductions	(259,448,220)
28		
29	<b>RATE BASE</b>	<b>570,188,644</b>

Line No.	Rate Base	
1	Total Plant in Service	875,950,000
2		
3	Accumulated Depreciation	170,220,000
4	Plant in Service Net of Accumulated Depreciation	705,730,000
5		

## ASC 350-20 (FASB 142) GAAP – Goodwill

- Glossary - The excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed.
- The excess cost over the fair value of identifiable Assets
- Intangible Asset

26	Other Deferred Credits	(2,250,000)
27	Total Deductions	(259,448,220)
28		
29	<b>RATE BASE</b>	<b>570,188,644</b>

# 350 Intangibles—Goodwill and Other

## 20 Goodwill

### 35 Subsequent Measurement

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- ☐ 350 Intangibles—Goodwill and Other
  - ☐ 20 Goodwill
    - ☐ 35 Subsequent Measurement
      - ☒ General

**General Note:** The Subsequent Measurement Section provides guidance on an entity's subsequent measurement and subsequent recognition of an item. Situations that may result in subsequent changes to carrying amount include impairment, fair value adjustments, depreciation and amortization, and so forth.

## General

### > Overall Accounting for Goodwill

**35-1** Goodwill shall not be amortized. Instead, goodwill shall be tested for impairment at a level of reporting referred to as a reporting unit. (Paragraphs 350-20-35-33 through 35-46 provide guidance on determining reporting units.)

**35-1** Goodwill shall not be amortized. Instead, goodwill shall be tested for impairment at a level of reporting referred to as a reporting unit. (Paragraphs 350-20-35-33 through 35-46 provide guidance on determining reporting units.)

[SUBMIT FEEDBACK ?](#) [SUBMIT ANNOTATION ?](#)

## BALANCE SHEET ACCOUNTS

## 114. Utility Plant Acquisition Adjustments

**BALANCE SHEET ACCOUNTS****114. Utility Plant Acquisition Adjustments**

A. This account shall include the difference between (a) the cost to the accounting utility of utility plant acquired as an operating unit or system by purchase, merger, consolidation, liquidation, or otherwise, and (b) the original cost, estimated, if not known, of such property, less the amount or amounts credited by the accounting utility at the time of acquisition to accumulated depreciation, accumulated amortization and contributions in aid of construction with respect to such property.

expenses, for the purpose of providing for the extinguishment of amounts in account 114 - Utility Plant Acquisition Adjustments.

**116. Other Utility Plant Adjustments**

A. This account shall include the difference between the original cost, estimated if not known, and the book cost of utility plant to the extent that such difference is not properly includible in account 114 - Utility Plant Acquisition Adjustments (See Accounting Instruction 17C).

B. Amounts included in this account shall be classified in such manner as to show the origin of each amount and shall be disposed of as the Commission may approve or direct.

**Note:**--The provisions of this account shall not be construed as approving or authorizing the recording of appreciation of utility plant.

**Other Property and Investments****121. Nonutility Property**

A. This account shall include the book cost of land, structures, equipment or other tangible or intangible property owned by the utility, but not used in utility service and not properly includible in account 103 - Property Held for Future Use.

B. This account shall be subdivided so as to show the amount of property used in operations which are nonutility in character but nevertheless constitute a distinct operating activity of the company (such as plant merchandising and repair where such activity is not classified as utility) and the amount of miscellaneous property not used in operations. The records in

**C. The detailed electric plant accounts (301 to 399, inclusive) shall be stated on the basis of cost to the utility of plant constructed by it and the original cost, estimated if not**

The difference between the original cost, as above, and the cost to the utility of electric plant after giving effect to any accumulated provision for depreciation or amortization shall be recorded in account 114, Electric Plant Acquisition Adjustments. |

companies with respect to electric plant previously acquired as operating units or systems and the difference between the original cost so determined, less accumulated provisions for depreciation and amortization and the cost to the utility with necessary adjustments for retirements from the date of acquisition, shall be entered in account 114, Electric Plant Acquisition Adjustments. Any difference between the cost of electric plant and its book cost, when not properly includible in other accounts, shall be recorded in account 116, Other Electric Plant Adjustments.

## Instructions for account 114 Acquisition Adjustments

C. Debit amounts recorded in this account related to plant and land acquisition may be amortized to account 425, Miscellaneous Amortization, over a period not longer than the

[Amortized]...over a period not longer than the estimated remaining life of the properties to which such amounts relate. Amounts related to the acquisition of land only may be amortized to account 425 over a period of not more than 15 years.

Other than that, it shall pertain to the Commission for authority to do so. Credit amounts recorded in this account shall be accounted for as directed by the Commission.



Line No.	Rate Base	
1	Total Plant in Service	875,950,000
2		
3	Accumulated Depreciation	170,220,000

### Plant Held for Future Use

This category of plant generally contains plant that is owned and held for a future purpose, and thus not yet in active service.

- Many jurisdictions require that the property held in this account have a definite plan for use (e.g., the FERC) or even specify a time frame by which the property must be actively used (e.g., the FCC).
- Therefore, the auditor should specifically examine the list of items within this account and determine if there is a definite plan for use related to the provision of utility service.

NOTE: Some states completely disallow any inclusion of plant held for future use in rates, while others may allow some or all to be included in rate base. This is a jurisdictional specific decision.

*Source: NARUC Rate case and Audit Manual*

27	Total Deductions	(259,448,220)
28		
29	<b>RATE BASE</b>	<b>570,188,644</b>

Line No.	Rate Base	
26	Other Deferred Credits	(2,250,000)
27	Total Deductions	(259,448,220)
28		
29	<b>RATE BASE</b>	<b>570,188,644</b>

### Prepayments

The auditor should examine the nature of the prepayments as well as the amounts of each type of prepayment.

In looking at these items, one should look to see that they relate to the provision of utility service, and are the type of expense that is normally lumpy in nature, and therefore, paid periodically and then amortized over some number of months.

- An example of a commonly included prepayment is insurance. Watch the allocation of insurance as it often covers not only the regulated utility, but also affiliates and deregulated activities.
- Since the prepayment balance will vary during a period, the auditor may wish to consider using an average balance to reach a more normalized level for inclusion in rate base.

*Source: NARUC Rate case and Audit Manual*

26	Other Deferred Credits	(2,250,000)
27	Total Deductions	(259,448,220)
28		
29	<b>RATE BASE</b>	<b>570,188,644</b>

Line No.	Rate Base	
1	Total Plant in Service	875,950,000
2		
3	Accumulated Depreciation	170,220,000
4	Plant in Service Net of Accumulated Depreciation	705,730,000
5		
6	<b>Adjustments for Rate Base</b>	
7	Utility Plant Acquisition Adjustment	(4,402,000)
8	Accumulated Amortization of Acquisition Adjustment	1,540,000
9	Plant in Service Net of Depreciation and Adjustments	702,868,000
10		
11	<b>Calculating the Rate Base: Additions</b>	
12	Plant Held for Future Use	200,000
13	Prepayments (insurance, property tax, other)	775,000
14	Materials and Supplies	650,000
15	Cash Working Capital (1/8 O&M method)	57,018,864
16	Regulatory Assets (deferred)	68,125,000
17	Total Additions	126,768,864
18		
19	<b>Calculating the Rate Base: Deductions</b>	
20	Accumulated Deferred Income Taxes	(203,453,000)
21	Accumulated Deferred ITC	(220,220)
22	Contributions in Aid of Construction (CIAC, net)	(20,000,000)
23	Advances for Construction	(12,025,000)
24	Customer Deposits	(6,500,000)
25	Regulatory Liabilities (deferred)	(15,000,000)
26	Other Deferred Credits	(2,250,000)
27	Total Deductions	(259,448,220)
28		
29	<b>RATE BASE</b>	<b>570,188,644</b>

Line No.	Rate Base	
1	Total Plant in Service	875,950,000
2		

### Materials and Supplies

- Review recent large purchases of Materials and Supplies and the reason for the large purchase. The auditor should look for ways to determine the reasonableness of the materials and supplies balance.
- Does it include obsolete material? Spare parts recovered through retirement booked at cost.
- An auditor may wish to look for anomalies in the month end balance during the period, to see if there is a need to normalize the balance included in rate base.
- Meters are traditionally not included in the Materials and Supplies inventory even when not used and still in the box but instead placed directly into the meters account!

26	Other Deferred Credits	(2,250,000)
27	Total Deductions	(259,448,220)
28		
29	<b>RATE BASE</b>	<b>570,188,644</b>

Line No.	Rate Base	
Federal Energy Regulatory Commission	Pt. 101	
(3) The interest rate, including the method used to determine the interest earning rates and interest borrowing rates for deposits into and borrowings from the program; and	ITEMS	
(4) The method used to allocate interest income and expenses among public utilities or licensees in the program.	Labor:	
NOTE A: On the balance sheet, accounts receivable from an associated company may be set off against accounts payable to the same company.	1. Procuring and handling of fuel.	Total Plant in Service 875,950,000
NOTE B: The face amount of notes receivable discounted, sold or transferred without releasing the utility from liability as endorser thereon, shall be credited to a separate	2. All routine fuel analyses.	Accumulated Depreciation 170,220,000
	3. Unloading from shipping facility and putting in storage.	Net of Accumulated Depreciation 705,730,000
	4. Moving of fuel in storage and transferring from one station to another.	

154 Plant materials and operating supplies.	
A. This account shall include the	00)
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**334. Meters and Meter Installations**

A. This account shall include the cost of meters, devices and appurtenances attached thereto, used for measuring the quantity of water delivered to users, whether actually in service or held in reserve. It shall also include the cost of labor employed, materials used and expenses incurred in connection with the original installation of a customer's meters and devices and appurtenances attached thereto.

A. This account may include the cost of labor and of supplies used and expenses incurred in unloading fuel from the shipping medium and in the handling thereof prior to its use, if such expenses are sufficiently significant in amount to warrant being treated as a part of the cost of fuel inventory rather than being charged direct to expense as incurred.

B. Amounts included herein shall be charged to expense as the fuel is used to the end that the balance herein shall not exceed the expenses attributable to the inventory of fuel on hand.

cluded herein as follows:

(1) Reusable materials consisting of large individual items shall be included in this account at original cost, estimated if not known. The cost of repairing such items shall be charged to the maintenance account appropriate for the previous use.

(2) Reusable materials consisting of relatively small items, the identity of which (from the date of original installation to the final abandonment or sale thereof) cannot be ascertained without undue refinement in accounting, shall be included in this account at current prices new for such items. The cost of

Advances for Construction	(12,025,000)
Customer Deposits	(6,500,000)
Regulatory Liabilities (deferred)	(15,000,000)
Other Deferred Credits	(2,250,000)
Total Deductions	(259,448,220)
<b>RATE BASE</b>	<b>570,188,644</b>

Line No.	Rate Base	
1	Total Plant in Service	875,950,000
2		

## Working Capital

- Textbook definition:  
Net Working Capital = Current Assets - Current Liabilities.
- **Working Capital** is the net current assets needed to pay the day to day operations of the company.
- **Cash Working Capital** is the cash and other liquid current assets. It is a subset of the grouping Working Capital.
- Working capital is a period concept and should be measure over the test year.
- Adam Smith identified working capital as “circulating capital” in his 1776 book, *Wealth of Nations*.

26	Other Deferred Credits	(2,250,000)
27	Total Deductions	(259,448,220)
28		
29	<b>RATE BASE</b>	<b>570,188,644</b>



Line No.	Rate Base	
1	Total Plant in Service	875,950,000
2		
3	Accumulated Depreciation	170,220,000
4	Plant in Service Net of Accumulated Depreciation	705,730,000
5		
6	<b>Adjustments for Rate Base</b>	
7	Utility Plant Acquisition Adjustment	(4,402,000)
8	Accumulated Amortization of Acquisition Adjustment	1,540,000
9	Plant in Service Net of Depreciation and Adjustments	702,868,000
10		
11	<b>Calculating the Rate Base: Additions</b>	
12	Plant Held for Future Use	200,000
13	Prepayments (insurance, property tax, other)	775,000
14	Materials and Supplies	650,000
15	Cash Working Capital (1/8 O&M method)	57,018,864
16	Regulatory Assets (deferred)	68,125,000
17	Total Additions	126,768,864
18		
19	<b>Calculating the Rate Base: Deductions</b>	
20	Accumulated Deferred Income Taxes	(203,453,000)
21	Accumulated Deferred ITC	(220,220)
22	Contributions in Aid of Construction (CIAC, net)	(20,000,000)
23	Advances for Construction	(12,025,000)
24	Customer Deposits	(6,500,000)
25	Regulatory Liabilities (deferred)	(15,000,000)
26	Other Deferred Credits	(2,250,000)
27	Total Deductions	(259,448,220)
28		
29	<b>RATE BASE</b>	<b>570,188,644</b>

Working Capital

# Additions to Rate Base

## Cash Working Capital

- **Lead-Lag Study**
  - Most common approach
  - Actual study of cash flows related to payments and receipts of cash
  - Time consuming / Expensive
  - 45-day Lag = 30 days service + 15 after billing
- **Expected Auditor Inquires**
  - Review worksheets / interview witness
  - Look for missing sources of working cap –
    - e.g., prepayments.

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CASH WORKING CAPITAL

Purpose and Description: Test Year Lead/Lag

	(1)	(2)	(3)	(4)	(5)	(6)
	Revenue Lag (Days)	Expense Lead (Days)	Net Days (1) - (2)	Annual Distribution Expense	Daily Expense (4/365)	Working Capital Requested (5) * (3)
<b>Retail Operating Expenses</b>						
Operation and Maintenance						
Payroll	45.79	11.97	33.82	\$ 49,823,448	136,503	\$ 4,617,005
Payroll Incentive	45.79	270.00	(224.21)	8,504,863	23,301	(5,224,293)
Employee Benefits	45.79	11.96	33.83	13,505,593	37,002	1,251,659
Regulatory Assessments	45.79	12.10	33.69	4,766,319	13,058	439,944
Insurance Expense & Injuries & Damages	45.79	(158.71)	204.50	2,372,376	6,500	1,329,244
Other O&M & Vegetation Management	45.79	45.95	(0.16)	83,827,945	229,666	(36,681)
<b>Total Operation and Maintenance</b>				<b>162,800,543</b>		<b>2,376,878</b>
Taxes:						
Local Property	45.79	(25.41)	71.20	47,117,521	129,089	9,191,514
Payroll Taxes	45.79	11.98	33.82	4,745,354	13,001	439,632
Federal Income Taxes	45.79	30.01	15.78	9,915,092	27,165	428,673
NH Profit and Enterprise Taxes	45.79	31.99	13.80	4,089,975	11,205	154,627
<b>Total Taxes (above the line)</b>				<b>65,867,941</b>		<b>10,214,446</b>
<b>Weighted Net Lag Days</b>						<b>20.10</b>
<b>Percentage</b>						<b>5.51%</b>
<b>Test Year Distribution Working Capital</b>						<b>\$ 12,591,324</b>

	(1)	(2)	(3)	(4)	(5)	(6)
	Revenue Lag (Days)	Expense Lead (Days)	Net Days (1) - (2)	Annual Distribution Expense	Daily Expense (4/365)	Working Capital Requested (5) * (3)
Payroll	45.79	11.97	33.82	\$ 49,823,448	136,503	\$ 4,617,005

# Additions to Rate Base Working Capital

- **Balance Sheet Method**
  - Standard accounting formula
  - Current Assets – Current Liabilities
  - L/T Liabilities – L/T Equity
  - Complex
  - Used by two states, each with a different approach

# Additions to Rate Base Working Capital

## Formula Method:

- Assumes 45-day lag in revenues.
- Assumes NO expense lead.
- $45/365 = 12.33\%$  of operating expenses
- Excludes depreciation, property tax and fuel.
- **Expected Auditor Inquires**
  - Review workpaper (very simple)
  - Note: method NEVER results in negative working capital .... Does it make sense.

Line No.	Rate Base	
BALANCE SHEET ACCOUNTS		875,950,000

This account shall include:

1. Any amount or item of money, services or property received by a utility, from any person or governmental agency, any portion of which is provided at no cost to the utility, which represents an addition or transfer to the capital of the utility, and which is utilized to offset the acquisition, improvement or construction costs of the utility's property, facilities, or equipment used to provide utility services to the public.

3. Compensation received from governmental agencies and others for relocation of water mains or other plants.	775,000 650,000
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**272. Accumulated Amortization of Contributions in Aid of Construction**

- A. This account shall reflect the amortization accumulated on account 271 - Contributions in Aid of Construction, if recognized by the Commission.
- B. Specifically, balances in account 271 which represent contributions of depreciable plant shall be amortized by charges to this account over a period equal to the estimated service life of the related contributed asset. A group or overall composite rate may be used for contributed balances that cannot be directly related to a plant asset.
- C. The concurrent credit for the amortization recorded in this account shall be made to account 403 - Depreciation Expense.

29	<b>RATE BASE</b>	<b>570,188,644</b>
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Line No.	Rate Base	
1	Total Plant in Service	875,950,000
2		
3	Accumulated Depreciation	170,220,000
4	Plant in Service Net of Accumulated Depreciation	705,730,000
5		
6	<b>Adjustments for Rate Base</b>	
7	Utility Plant Acquisition Adjustment	(4,402,000)
8	Accumulated Amortization of Acquisition Adjustment	1,540,000

### Expected Auditor Inquires

- Different CIAC type segregated
- CIAC related to plant not in service is removed from rate base
- Gross-up required to pay income taxes is accounted for.

15	Cash Working Capital (1/8 O&M method)	57,018,864
16	Regulatory Assets (deferred)	68,125,000
17	Total Additions	126,768,864
18		
19	<b>Calculating the Rate Base: Deductions</b>	
20	Accumulated Deferred Income Taxes	(203,453,000)
21	Accumulated Deferred ITC	(220,220)
22	Contributions in Aid of Construction (CIAC, net)	(20,000,000)
23	Advances for Construction	(12,025,000)
24	Customer Deposits	(6,500,000)
25	Regulatory Liabilities (deferred)	(15,000,000)
26	Other Deferred Credits	(2,250,000)
27	Total Deductions	(259,448,220)
28		
29	<b>RATE BASE</b>	<b>570,188,644</b>

Line No.	Rate Base	
1	Total Plant in Service	875,950,000
2		
3	Accumulated Depreciation	170,220,000
4	Plant in Service Net of Accumulated Depreciation	705,730,000
	<b>Items for Rate Base</b>	
	Position Adjustment	(4,402,000)
	Position Adjustment	1,540,000
	Items and Adjustments	702,868,000
11	<b>Calculating the Rate Base: Additions</b>	
12	Plant Held for Future Use	200,000
13	Prepayments (insurance, property tax, other)	775,000
14	Materials and Supplies	650,000
15	Cash Working Capital (1/8 O&M method)	57,018,864
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24	Customer Deposits	(6,500,000)
25	Regulatory Liabilities (deferred)	(15,000,000)
26	Other Deferred Credits	(2,250,000)
27	Total Deductions	(259,448,220)
28		
29	<b>RATE BASE</b>	<b>570,188,644</b>

Questions

“...the corporation may not be required to use its property for the benefit of the public with out receiving just compensation for the services rendered by it. How such compensation may be ascertained, and what are the necessary elements in such an inquiry, will always be an embarrassing question...”

US Supreme Court  
Justice Harlan - Smyth v. Ames  
171 U.S. 361 (1898)



Questions or Comments?



# Thank You!

