Rate Case Auditing – Part 2

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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.
- This course is eligible for CPE credit.

"…the problem of ratemaking is one which has taxed, and will continue to tax, the ingenuity of man to the extent of time."

Commissioner John V. Smith of Alabama July 16, 1903, to the fifteenth annual convention of NARUC

CWIP in Rate Base vs AFUDC

Construction Work in Progress (CWIP)

- Includes costs of construction for projects that extend for more than a year and are not considered Used and Useful.
- **Audit issue: Financing Costs**

105. Construction Work in Progress
A. This account shall include the total of balances of work ...

Regulatory Methods of handling Financing Costs

- **AFUDC – Allowance for Funds used During Construction.**
  - Financing costs are accrued and added to CWIP
  - Includes both Equity and Debt costs
  - **ISSUE**: Deferred Financing Costs earn a return, so there is a compounding impact that is also deferred for later recovery.

Regulatory Methods of handling Financing Costs

- **Include CWIP account balance in Rate Base**
  - Financing costs are recovered currently in rates and no financing costs are accrued and added to CWIP
  - Includes both Equity and Debt costs
  - **ISSUE**: Rate Payers are paying for plant that is not providing service.
  - Some states prohibit this approach (used and useful)

Use of allowance for funds used during construction (AFUDC)

- The auditor should become familiar with the formula used by the utility to compute AFUDC to assure the utility has computed the rate correctly.
- The utility most likely uses the FERC approach or some approach similar found in the USoA Plant instructions (17).

December 31, 2021
247,286
697,200
95,658
24,947
1,065,091
199,723
865,368
3,533
15,311
7,273
5,358
2,880
34,355
4,503
3,540
100,738
11,428
-
83
120,292
1,020,015

(17) *Allowance for funds used during construction* (Major and Nonmajor Utilities) includes the net cost fo the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used, not to exceed, without prior approval of the Commission, allowances computed in accordance with the formula prescribed in paragraph (a) of this subparagraph. No allowanc for funds used during construction charges shall be included in these accounts upon expenditures for construction projects which have been abandoned.

(a) The formula and elements for the shall be:

$$A_i = s(S/W) + d(D/D + P + C)(1-S/W)$$

$$A_e = [1-S/W][p(P/D+P+C)+c(C/D+P+C)]$$

> A_i = Gross allowance for borrowed funds used during construction rate.
> A_e = Allowance for other funds used during construction rate.
> S = Average short-term debt.
> s = Short-term debt interest rate.

Audit Issue: AFUDC stops when the project is complete Not when the project is (a) put into service or (b) recognized in rate base

Impact of AFUDC vs. CWIP

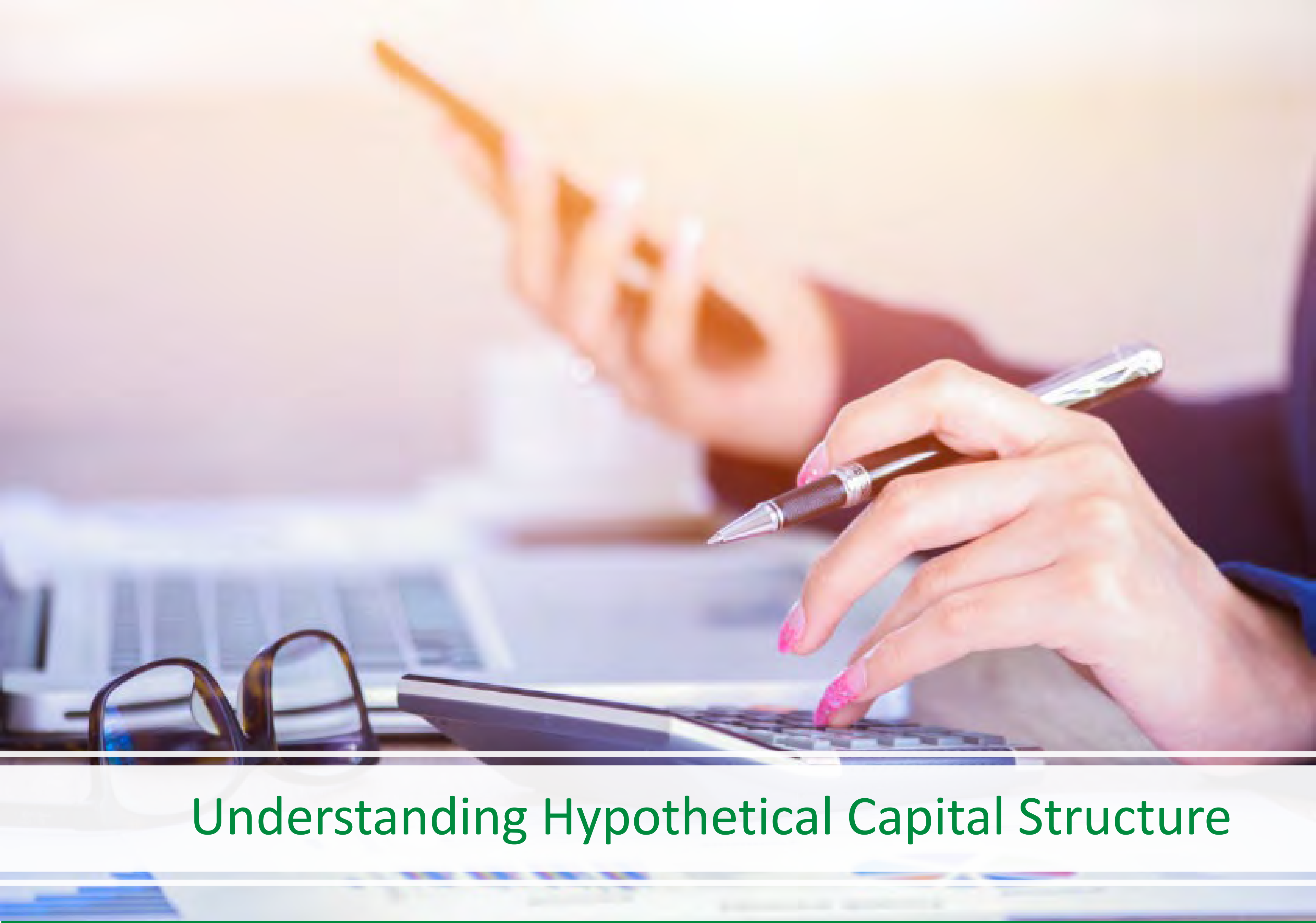
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Total
AFUDC (no CWIP in rate base)										
Capitalized cost (cumulative)	$1,000	$2,070	$3,215							
AFUDC (7%)	$70	$145	$225							
Total CWIP	$1,070	$2,215	$3,440							
Plant in service				$3,440	$3,440	$3,440	$3,440	$3,440	$3,440	
Accumulated depreciation				$573	$1,147	$1,720	$2,293	$2,867	$3,440	
Rate base				$2,867	$2,293	$1,720	$1,147	$573	$0	
ROR (7%)				$201	$161	$120	$80	$40	$0	
Depreciation expense				$573	$573	$573	$573	$573	$573	
Rate impact				$774	$734	$694	$654	$613	$573	$4,042
CWIP in rate base										
Total CWIP	$1,000	$2,000	$3,000							
Plant in service	$1,000	$2,000	$3,000	$3,000	$3,000	$3,000	$3,000	$3,000	$3,000	
Accumulated depreciation	$0	$0	$0	$500	$1,000	$1,500	$2,000	$2,500	$3,000	
Rate base	$1,000	$2,000	$3,000	$2,500	$2,000	$1,500	$1,000	$500	$0	
ROR (7%)	$70	$140	$210	$175	$140	$105	$70	$35	$0	
Depreciation expense	$0	$0	$0	$500	$500	$500	$500	$500	$500	
Rate impact of CWIP in RB	$70	$140	$210	$675	$640	$605	$570	$535	$500	$3,945

MIDDLESEX WATER COMPANY
CONSOLIDATED BALANCE SHEETS
(In thousands)

ASSETS		December 31, 2022	December 31, 2021
UTILITY PLANT:	Water Production	$ 249,153	$ 247,286
	Transmission and Distribution	735,138	697,200
	General	97,581	95,658
	Construction Work in Progress	53,570	24,947
	TOTAL	1,135,442	1,065,091
	Prepayments	2,624	2,880
	TOTAL CURRENT ASSETS	37,306	34,355
OTHER ASSETS:	Operating Lease Right of Use Asset	3,826	4,503
	Preliminary Survey and Investigation Charges	2,806	3,540
	Regulatory Assets	90,046	100,738
	Non-utility Assets - Net	11,207	11,428
	Employee Benefit Plans	8,689	-
	Other	19	83
	TOTAL OTHER ASSETS	116,593	120,292
	TOTAL ASSETS	$ 1,074,450	$ 1,020,015

Audit Issue:

If CWIP is allowed to be included in Rate Base, the auditor should confirm the capitalization of financing costs through the **allowance for funds used during construction (AFUDC)** stops once rates are effective.



Understanding Hypothetical Capital Structure

CAPITALIZATION AND LIABILITIES

CAPITALIZATION:	Common Stock, No Par Value	$ 233,054	$ 221,919
	Retained Earnings	167,274	145,807
	TOTAL COMMON EQUITY	400,328	367,726
	Preferred Stock	2,084	2,084
	Long-term Debt	290,280	306,520
	TOTAL CAPITALIZATION	692,692	676,330

If the utility's proportion or cost of debt is significantly different than that indicated as industry averages, the auditor may wish to consider using a *hypothetical* capital structure, in lieu of the actual capital structure. In doing this, one would look to base the capital structure on industry averages for similarly situated utilities, in effect, using a more normal capital structure for rates than that indicated by the actual capital structure. This is sometimes done when either the proportion of debt or proportion of equity is an unusually large portion of the capital structure.

Source: NARUC Rate Case and Audit Manual

	Accumulated Deferred Income Taxes	77,783	69,500
	Employee Benefit Plans	-	11,290
	Regulatory Liabilities	46,734	49,431
	Other	919	1,086
	TOTAL OTHER LIABILITIES	150,524	159,203
CONTRIBUTIONS IN AID OF CONSTRUCTION		113,375	127,863
	TOTAL CAPITALIZATION AND LIABILITIES	$ 1,074,450	$ 1,020,015

See Notes to Consolidated Financial Statements.

CAPITALIZATION AND LIABILITIES

CAPITALIZATION:	Common Stock, No Par Value	$	233,054	$	221,919
			167,274		145,807
			400,328		367,726
			2,084		2,084
			290,280		306,520
			692,692		676,330
CURRENT LIABILITIES:			17,462		6,731
			55,500		13,000
			24,847		21,125
			12,162		8,621
			2,535		1,986
			1,365		1,330
			3,988		3,826
			117,859		56,619
COMMITMENTS AND C					
OTHER LIABILITIES:			21,382		23,529
			3,706		4,367
			77,783		69,500
	Employee Benefit Plans		-		11,290
	Regulatory Liabilities		46,734		49,431
	Other		919		1,086
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See Notes to Consolidated Financial Statements.

Capital Structure Computation

Common Equity	400,328	
Preferred	2,084	
Total Equity	402,412	42%
LT Debt	290,280	
Current Liab	117,859	
Other Liab	150,524	
Liabilities and Other Cr	558,663	58%
Total Capitalization	961,075	100%

CAPITALIZATION AND LIABILITIES

CAPITALIZATION:	Common Stock, No Par Value	$	233,054	$	221,919
	Retained Earnings		167,274		145,807
	TOTAL COMMON EQUITY		400,328		367,726
	Preferred Stock		2,084		2,084

Hypothetical Capital Structure Example

	Amount	Percent	Cost	Weighted	
Equity	402,412	42%	11.5%	4.8%	
Debt & Other Cr.	558,663	58%	6.5%	3.8%	
Total Capitalization	961,075	100%		8.6%	82,590

	Amount	Percent	Cost	Weighted	
Equity	402,412	45%	11.5%	5.2%	
Debt & Other Cr.	558,663	55%	6.5%	3.6%	
total Capitalization	961,075	100%		8.8%	84,094

Change in Earnings	1,504
Revenue Conversion Factor	1.32
Change in Revenue Requirement	1,978

Capital Structure Computation

Common Equity	400,328	
Preferred	2,084	
Total Equity	402,412	42%
LT Debt	290,280	
Current Liab	117,859	
Other Liab	150,524	
Liabilities and Other Cr	558,663	58%
Total Capitalization	961,075	100%

	Other		919		1,086
	TOTAL OTHER LIABILITIES		150,524		159,203
CONTRIBUTIONS IN AID OF CONSTRUCTION			113,375		127,863
	TOTAL CAPITALIZATION AND LIABILITIES	$	1,074,450	$	1,020,015

See Notes to Consolidated Financial Statements.

CAPITALIZATION AND LIABILITIES

CAPITALIZATION:	Common Stock, No Par Value	$	233,054	$	221,919
	Retained Earnings		167,274		145,807
	TOTAL COMMON EQUITY				367,726
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	TOTAL OTHER LIABILITIES		150,524		159,203
CONTRIBUTIONS IN AID OF CONSTRUCTION			113,375		127,863
	TOTAL CAPITALIZATION AND LIABILITIES	$	1,074,450	$	1,020,015

Hypothetical Capital Structure Example

	Amount	Percent	Cost	Weighted	
Equity	402,412	65%	11.5%	7.5%	
Debt & Other Cr.	558,663	35%	6.5%	2.3%	
Total Capitalization	961,075	100%		9.8%	93,705

	Amount	Percent	Cost	Weighted	
Equity	402,412	55%	11.5%	6.3%	
Debt & Other Cr.	558,663	45%	6.5%	2.9%	
total Capitalization	961,075	100%		9.3%	88,899

Change in Earnings	(4,805)
Revenue Conversion Factor	1.32
Change in Revenue Requirement	(6,323)

See Notes to Consolidated Financial Statements.

Types of Adjustments

Adjustments

What does adjustments have to do with auditing?

Regulatory auditors are not financial auditors.
The purpose of a regulatory auditor is to provide assurance to rate payers, companies and the regulators themselves that the rates approved will provide the company with a reasonable opportunity to earn a return on its investment while providing rate payers service at the least cost. Adjustments are one of the tools that the regulatory auditor uses to achieve that goal.

WAIT!!!!

Regulatory Adjustments

- Various adjustments are needed to adjust a test year to reflect costs and revenues that are reasonably expected to be incurred in the rate year. This is especially true when working with small companies.
- Adjustments are required when working with a historically-based pro forma test year as well as when preparing a partial or fully projected test year.
- Future changes in the economic environment must be recognized in order to develop a forward-looking income statement and rate base

Regulatory Adjustments
– Small Companies

In audits of small companies its not uncommon to find personal expenses while at the same time finding no costs for other items such as personal vehicles used in the business.

- Review of a small company's income taxes may provide addition information such as milage claimed for income taxes,
- Add regulatory costs such as legal costs of filing a case or expert consultant – not known at time of filing,
- Adjust for other reasonably estimated, costs that will be incurred in its rate year.

*Remember, small companies serve small communities which deserve safe and reliable utility service.

Restating Adjustments

- Out-of-period
  - Auditors when reviewing invoices must be aware of transactions that took place prior to the beginning of the year but paid during the test year.
    - ***Issue: Are rates being set using a modified cash-basis of accounting or full accrual?***
  - Auditors must also look for transactions that belong in the test year but were paid outside the test year.
    - ***The rental cost of a backhoe for a water main repair that was paid two months after the end of the test year.***

Deferral Adjustments

Auditors routinely find expenses in a test year that are **material** but not expected to be recurring.

Auditors must decide to:

a) Disallow the expense for future recovery or
b) Defer and amortize, allowing recovery in the future

What is a possible problem with a disallowance?

What if there is a large one-time loss from flood damage, which, without recovery of the cost, may simply bankrupt the company?

Deferral Adjustments

Auditors routinely find expenses in a test year that are **material** but not expected to be recurring.

Auditors must decide to:

a) Disallow the expense for future recovery or
b) Defer and amortize, allowing recovery in the future

What is a possible problem with the deferral option?

A company normally requires authorization from its regulatory agency to defer costs incurred in one period to recovered in a later period.

The Problem: [Possible] Retroactive Ratemaking

Deferral Adjustments

Retroactive Ratemaking

The courts have described the Retroactive Ratemaking prohibition as "… imposing a rate increase for [electricity] already sold."
(Arkla, 453 U.S. at 578)

- That is, the company gets a second bit of the apple to recover costs of providing utility services in a prior period.

- **For Example:** Expenses that were allowed in a company's prior case which were uncollected or incorrect cannot be recovered in a current case. Same regarding excess revenue cannot be "clawed back."

- **DEPENDING on commission policy:** The question for the auditor: Is a deferral of a utility's costs associated with a company's response to catastrophic events, such as windstorms, earthquakes, etc., be considered retroactive recovery?

Projected or Pro Forma Adjustments

Annualization Adjustment

An auditor should be able to recognize changes in revenues or expenses through comparables. If a material change is identified,

The auditor should consider:

- Is the change durable, will it continue?
- If it will continue, is the cost measurable or reasonably predicted?

5% insurance premium increase

Projected or Pro Forma Adjustments

Normalization Adjustment

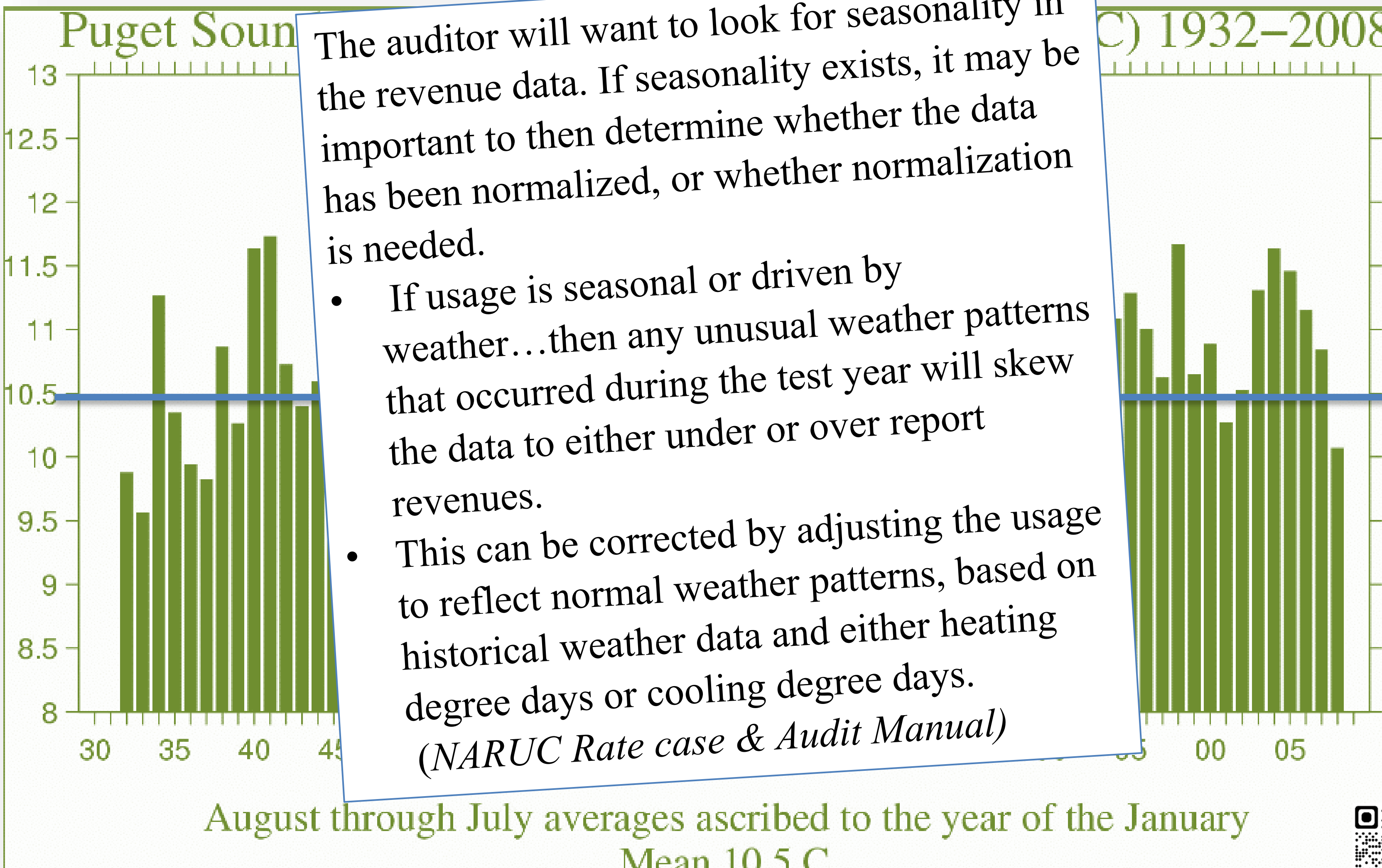
- Auditors must be able to think through the impact of unusual or abnormal events on revenue or expenses on the company's test year,

  During the test year, there was a drought that dramatically increased the cost of electric power for a six-month period. The drought has ended, and hydro-provided power has returned to normal.

- Auditors need to adjust revenues or expenses in the test year to smooth variable annual data.

  weather normalization

Projected or Pro Forma Adjustments



The auditor will want to look for seasonality in the revenue data. If seasonality exists, it may be important to then determine whether the data has been normalized, or whether normalization is needed.

- If usage is seasonal or driven by weather…then any unusual weather patterns that occurred during the test year will skew the data to either under or over report revenues.
- This can be corrected by adjusting the usage to reflect normal weather patterns, based on historical weather data and either heating degree days or cooling degree days.

(NARUC Rate case & Audit Manual)

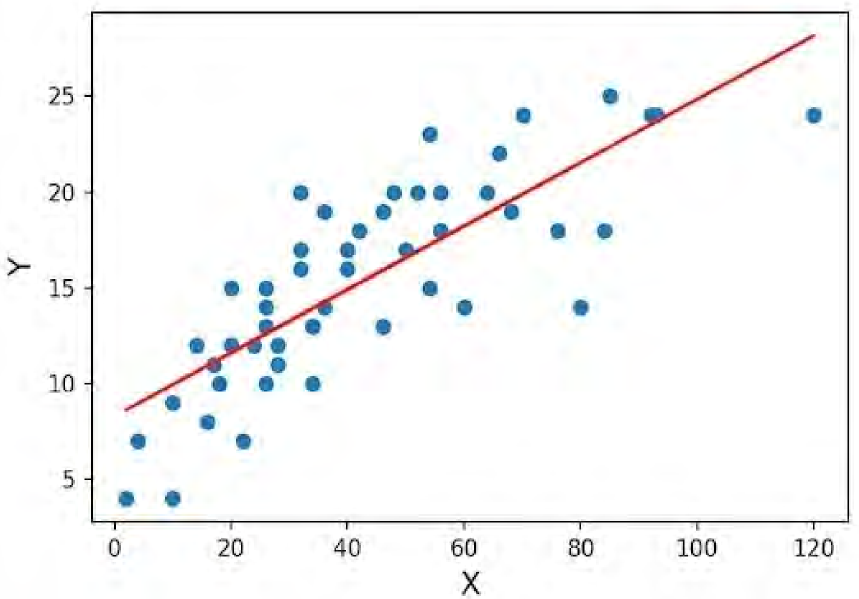
Projected or Pro Forma Adjustments

Statistical Modeling to find trends or relationships

Linear Regression

Linear regression is a tool that is used to model the relationship between two variables (independent and dependent) by fitting a linear equation to observed data.

The most common method for deriving a regression line is the least-squares method.



Types of Adjustments

Poll Question

Is there a difference between Precision and Accuracy?

1. Yes
2. No
3. Sometimes
4. Only Mammals

Types of Adjustments

Poll Question

Is there a difference between Precision and Accuracy?

1. Yes
2. No
3. Sometimes
4. Only Mammals

27

Precision vs Accuracy

Do not confuse Precision with Accuracy.

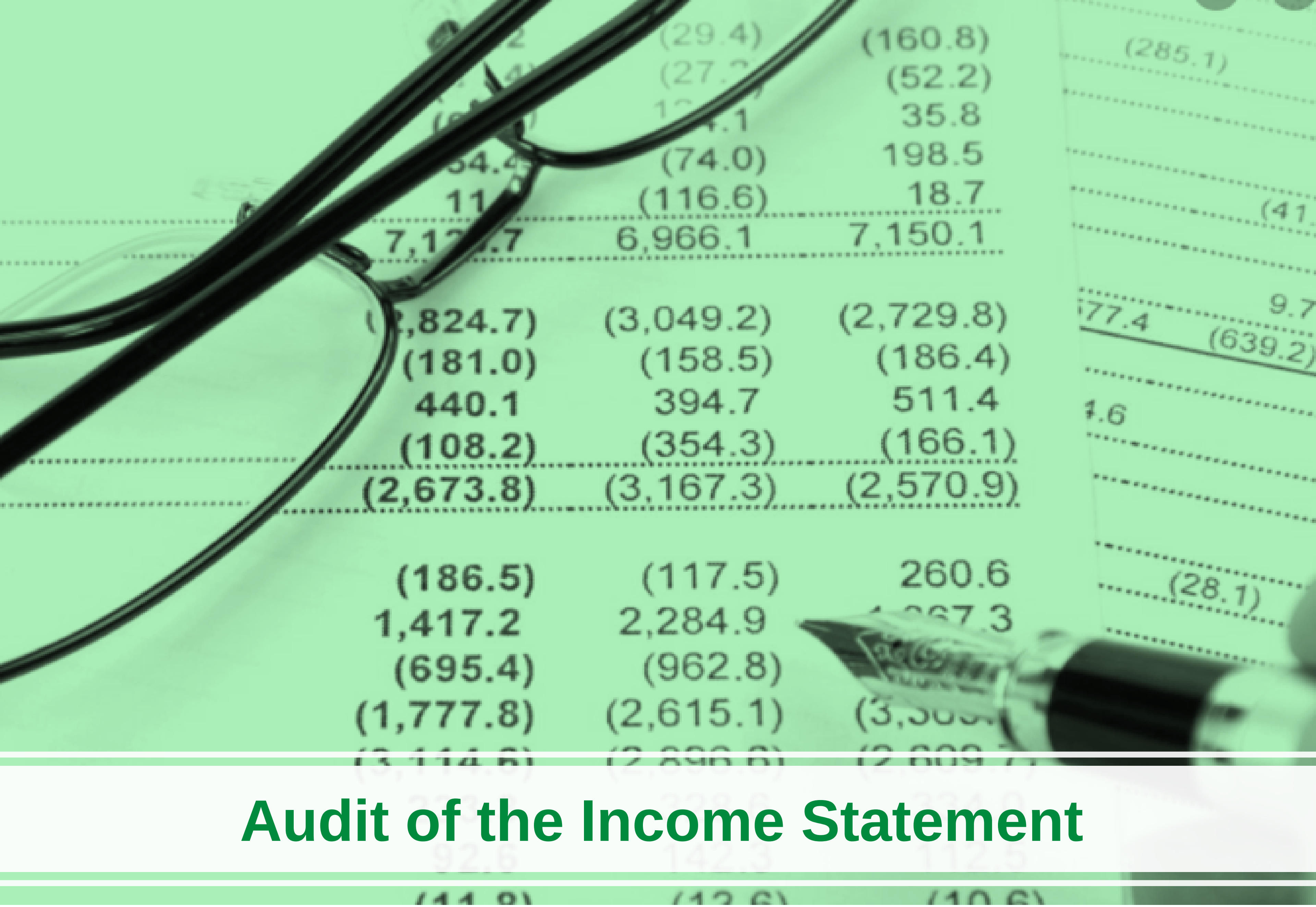
$\sqrt{562} = 36.32546526$

is precise

But incorrect.

$\sqrt{562} = 23.7$

23.7 is less precise but much more accurate!



Audit of the Income Statement

Review of the results of operations

Look at a multi-year comparison of annual revenue to obtain a view of the trend for the utility.

- Is it growing and if so, is the growth relatively consistent?
- Is the growth related to new customers or additional usage of existing customers?

(NARUC Rate case & Audit Manual)

Line No.		Results As filed Company
1	Operating Revenue	company filing
2	Unmetered Water Revenue	27,825
3	Metered Water Revenue	634,252
4	Fire Protection Revenue	-
5	Ready to Serve	2,222
6		
7		
8		636,474
9	Operating & Maintenance Expenses	
10		
11	Salary & Wages	372,000
12	Salary & Wages - Officers	62,000
13	Payroll taxes	52,080
14	Officer Pensions	23,252
15	Bank Service Charges	330
16	Materials and supplies	-
17	Rental Expense - Buildings/Real Property	32,525
18	Employee Pension	-
19	Insurance	12,562
20	Miscellaneous Expenses	876
21	Depreciation Expense	43,643
22	Amort of CIAC	-
23	Office Supplies	1,200
24	Other Tax & Licenses	341
25	Regulatory Expense	-
26	Postage Mailing	276
27	Contractual Services - CPA	1,200
28	Contractual Services - Legal	2,320
29	Contractual Services - Engineering	-
30	Legislative Expense	1,200
31	Charitable Contributions	3,666
32	Bad Debt	2,700
33	Repair & Maintenance	341
34	Telephone	655
		492
		1,690
		437
		7,192
		5,643
		628,620
42	Operating Income	
43	Before Interest and Taxes	7,854
44		
45		-
46	Net Operating Income	7,854

The auditor will also want to make sure that any other rate changes that occurred during the test year are reflected in the adjusted revenues.

Review of the results of operations

Fire Protection – should fire departments pay for water?

Ready-to-Serve – Service line installed

Stand-by – No Service line installed

Line No.		Results As filed Company
1	**Operating Revenue**	company filing
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39	Water Treatment & Testing	5,643
40	Total Operating Expenses	628,620
41		
42	**Operating Income**	
43	**Before Interest and Taxes**	7,854
44		
45		-
46	**Net Operating Income**	7,854

Auditors should be aware of the policy for ready-to-serve and stand-by service. It could require a limited group of people to pay for a common system.

Review of the results of operations

601. Salaries and Wages - Employees

This account shall include the compensation (salaries, bonuses and other consideration for services) paid or accrued to employees of the utility company for work related to operation and maintenance of that utility.

NARUC Water USoA

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1	**Operating Revenue**	company filing
2	Unmetered Water Revenue	27,825
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Review of the results of operations

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42	**Operating Income**	
43	**Before Interest and Taxes**	7,854
44		
45		-
46	**Net Operating Income**	7,854

Salaries and Wages

- Closely review wage increases which will become effective during or outside the test year.
  - During the test year – annualization of the increase must be accounting for in the calculation of labor costs
  - Look for *slippage* – when a highly paid individual retires or otherwise leaves and is replaced by a lower paid individual.

Review of the results of operations

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10		
11	Salary & Wages	372,000
44		
45		-
46	**Net Operating Income**	7,854

An auditor may wish to look at the percentage of overtime worked during the past few years and compare it to the percentage of overtime in the test year.

If there is a large difference between the historical numbers and the test year numbers, one will want to obtain an explanation.

(NARUC Rate case & Audit Manual)

e place after rates are effective

n-contractual increases

nployees received notice of increase,

has been issued. *require* notice be sent to

- Look for dis
relatives on

Consider using a multiple-year average percentage of overtime to use in the computation of the revenue requirement in order to normalize any test year [overtime] anomalies. *(NARUC Rate case & Audit Manual)*

Review of the results of operations

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Salaries and Wages - Officers

- Owner Wages and Expenses
  - An owner that works in the company wears two hats
  - When reviewing questions of compensation for owners the auditor must clearly understand the role the person is in relative to the cost.
    - Owners do not get pension plans paid by ratepayers – employees do.
    - Disallowed owner-based costs are NOT prohibited from being incurred!

Review of the results of operations

Line No.		2019 Results As filed Company
1	Operating Revenue	company filing
2	Unmetered Water Revenue	27,825
3	Metered Water Revenue	634,252
4	Fire Protection Revenue	-
5	Ready to Serve	2,222
6		
7		

Salaries and Wages - Officers

- Officer or management
  - What is the officer's salary and bonuses based on?
    - Economic benchmarks associated with the value of the company should be looked at closely since they normally benefit shareholders
    - Service satisfaction or other reliability operating benchmarks such as SAIDI and SAIFI normally benefit ratepayers.

35	Dues and Fees	492
36	Fuel and Transportation	1,690
37	Supplies & Materials	437
43	Before Interest and Taxes	7,854
44		
45		-
46	Net Operating Income	7,854

System Average Interruption Duration Index (SAIDI) and System Average Interruption Frequency Index (SAIFI).

Review of the results of operations

Line No.		Results As filed Company
1	Operating Revenue	company filing
2	Unmetered Water Revenue	27,825
3	Metered Water Revenue	634,252
4	Fire Protection Revenue	-
5	Ready to Serve	2,222
6		
7		
8		636,474
9	Operating & Maintenance Expenses	
42	Operating Income	
43	Before Interest and Taxes	7,854
44		
45		-
46	Net Operating Income	7,854

Salaries and Wages - Officers

- Officer or management
  - Determination of Salaries and other compensation?
  - Transparency in reporting
    - Ratecase filing / Data Requests
    - Shareholders Proxy statement
      - Will always contain the breakdown of Salaries,
      - Stock awards,
      - Bonuses

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Review of the results of operations

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2	Unmetered Water Revenue	27,825
3	Metered Water Revenue	634,252
4	Fire Protection Revenue	-
5	Ready to Serve	2,222
6		
7		
8		636,474
9	Operating & Maintenance Expenses	
44		
45		-
46	Net Operating Income	7,854

Rental of Building / Real Property

- Arms-Length transaction
  - Is rent market value?
  - Location?
    - Is the location re ... ced area?
    - Growth l ... a facility
- Non Arms-Le ... *: major shareholder owns property)*
  - Is rent market value?
  - Imputed Asset approach
    - Impute depreciation expense
    - Impute return on Original Cost less Depreciation

Lower cost or market?

Review of the results of operations

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2	Unmetered Water Revenue	27,825
3	Metered Water Revenue	634,252
4	Fire Protection Revenue	-
5	Ready to Serve	2,222
6		
7		
8		636,474
9	**Operating & Maintenance Expenses**	
10		
11	Salary & Wages	372,000
12	Salary & Wages - Officers	62,000
13	Payroll taxes	52,080
14	Officer Pensions	23,252
15	Bank Service Charges	330
16	Materials and supplies	-

403. **Depreciation Expense**

A. This account shall be charged with depreciation credited to account 108 - Accumulated Depreciation of Water Plant and credited with amortization debited to account 272 - Accumulated Amortization of Contributions in Aid of Construction. Depreciation shall be accrued on a straight-line remaining life basis or straight-line basis, as required by the Commission. A single composite depreciation rate may be used if approval from the Commission is obtained.

Line No.		Results As filed Company
31	Charitable Contributions	3,666
32	Bad Debt	2,700
33	Repair & Maintenance	341
34	Telephone	655
35	Dues and Fees	492
36	Fuel and Transportation	1,690
37	Supplies & Materials	437
38	Utility / Power	7,192
39	Water Treatment & Testing	5,643
40	Total Operating Expenses	628,620
41		
42	**Operating Income**	
43	**Before Interest and Taxes**	7,854
44		
45		-
46	**Net Operating Income**	7,854

Depreciation Expense (Water)

Journal Entry:	*Dr*	*Cr*
Depreciation Expense – Straight Line	XXX	
Accumulated Amortization of CIAC	XX	
Accumulated Depreciation		XXX
Amort. of CIAC		XX

To record regulatory basis depreciation expense

Depreciation Computation - Water

Analysis of Depreciation Expense

Plant in Service - Year End	$ 54,240		
Less:			
Non-depreciable Plant e.g., Land	(2,500)		
Advances for Construction	(460)		
Depreciable Plant	51,280		
Composite Depreciation Rate	2%		
	$ 1,026	$ 1,026	
Contribution in Aid of Construction	(1,100)		
Composite Amortization Rate	2%		
	$ (22)	(22)	
Net Regulatory Depreciation Expense		$ 1,004	

OR
Average Plant in Service

Recoverable Plant

Depreciation Computation

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.

D. If a regulatory body allows the amortization of any portion of the monies collected to pay the tax obligation caused by the receipt of CIAC, such amortization shall also be reflected in a sub-account of this account. Specifically, balances in account 271 which represent monies collected for the gross-up of CIAC (See Definition 15.) shall be amortized by charges to this account over a period determined by the regulatory body.

Net Regulatory Depreciation Expense $ 1,004

Review of the results of operations

421. Nonutility Income
This account shall contain all Revenue not includible in operating revenue.

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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.

28	Contractual Services - Legal	2,320
29	Contractual Services - Engineering	-

421. Nonutility Income
In this account is entered all income not includible in operating revenue accounts 460 through 474 or in account 419 – Interest and Dividend Income. Items in this account shall include:
1. Gross income from nonutility operations; and
2. Net gain on sale of nonutility property.

39	Water Treatment & Testing	3,643
40	Total Operating Expenses	628,620
41		
42	**Operating Income**	
43	**Before Interest and Taxes**	7,854
44		
45		-
46	**Net Operating Income**	7,854

Review of the results of operations

Gross income from nonutility operations

Nonutility income is an audit item because there is a regulatory question that must be answered. Is any of the ratepayer funded resources (plant or services) being used to subsidies the nonutility income?

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3	Metered Water Revenue	634,252
4	Fire Protection Revenue	-
5	Ready to Serve	2,222
6		
7		
		636,474
	Operating & Maintenance Expenses	
	Salary & Wages	372,000
	Salary & Wages - Officers	62,000
	Payroll taxes	52,080
	Officer Pensions	23,252
	Bank Service Charges	330
	Materials and supplies	-
	Rental Expense - Buildings/Real Property	32,525
	Employee Pension	-
	Insurance	12,562
	Miscellaneous Expenses	876
	Depreciation Expense	43,643
22	Amort of CIAC	-
		1,200
		341
		-
		276
		1,200
		2,320
		-
		1,200
		3,666
		2,700
		341
		655
		492
		1,690
		437
		7,192
		5,643
		628,620
		7,854
44		
45		-
46	**Net Operating Income**	7,854

The auditor should review prior workpapers to determine if there has been a prior determination as to cross-subsidy. Should consider talking to prior staff assigned to the case. If resources are being used than allocations must be derived to remove costs used for the nonregulated activity. The company may agree to include the nonutility revenue in revenue requirement in exchange of not allocating costs. This works only if there is positive income for the nonutility activity .

Review of the results of

Net gain on sale of nonutility property
When a utility that sales nonutility property any gain is not shared with the rate payer since the property was never dedicated to public service. The audit question is, is it true that the property was never utility property. IF it was, then rate payers may be entitled to all or a portion of the gain.

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The auditor should review prior workpapers to determine if there was any record of a transfer of the property out of regulation. Confirm that it was never included in rates. The account that could be useful is the *Plant Held for Future Use* account (103) NARUC (105) FERC

Line No.		Results As filed Company
1	Operating Revenue	company filing
2	Unmetered Water Revenue	27,825
	r Revenue	634,252
	n Revenue	-
	e	2,222
		636,474
	Maintenance Expenses	
	es	372,000
	es - Officers	62,000
		52,080
	ns	23,252
	Charges	330
	supplies	-
	e - Buildings/Real Property	32,525
	sion	-
		12,562
	Expenses	876
	Expense	43,643
22	Amort of CIAC	-
		1,200
		341
		-
		276
		1,200
		2,320
		-
		1,200
		3,666
		2,700
		341
		655
		492
		1,690
37	Supplies & Materials	437
38	Utility / Power	7,192
39	Water Treatment & Testing	5,643
40	Total Operating Expenses	628,620
41		
42	Operating Income	
43	Before Interest and Taxes	7,854
44		
45		-
46	Net Operating Income	7,854

Gain on reacquired Debt

When a utility reacquires high interest debt and replaces it with lower cost debt it can realize a gain on the transaction. GAAP allows the gain to be (1) amortized over the life of the original issuance (2) amortized over the life of the replacement debt or (3) flow-through the gain in the year of the transaction.

Regulatory accounting does not allow the flow-through of the gain in the year of the transaction since the rate payer would not see the benefit of the gain.

		Results As filed Company
	Revenue	company filing
	Water Revenue	27,825
	ater Revenue	634,252
	tion Revenue	-
	erve	2,222
		636,474
	& Maintenance Expenses	
	/ages	372,000
	/ages - Officers	62,000
	es	52,080
	sions	23,252
	ce Charges	330
	nd supplies	-
	ense - Buildings/Real Property	32,525
	Pension	-
		12,562
	ous Expenses	876
	n Expense	43,643
	IAC	-
	plies	1,200
	& Licenses	341
	Expense	-
	iling	276
	l Services - CPA	1,200
	l Services - Legal	2,320
	l Services - Engineering	-
	Expense	1,200
31	Charitable Contributions	3,666
32	Bad Debt	2,700
		341
		655
		492
		1,690
		437
		7,192
		5,643
		628,620
43	Before Interest and Taxes	7,854
44		
45		-
46	Net Operating Income	7,854

The auditor should review prior GAAP based annual reports (10-K) since last rate filing to confirm either there were no retirements or that any gain is being amortized consistent with regulatory accounting.

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INCOME ACCOUNTS

income taxes shall be recorded in account 409.20, Income Taxes, Other Income and Deductions.

419. **Interest and Dividend Income**
This account shall include interest revenues on securities, loans, notes, advances, special deposits, tax refunds and all other interest bearing assets and dividends on stocks of other companies, whether the securities are carried as investments or included in sinking or other special funds accounts.

420. **Allowance for Funds Used During Construction**
This account shall include concurrent credits for allowance for funds used during construction based upon the net cost of funds used for construction purposes and a reasonable rate upon other funds when so used. Appropriate regulatory approval shall be obtained for "a reasonable rate" (See Accounting Instruction 19).

421. **Nonutility Income**
In this account is entered all income not includible in operating revenue accounts 460 through 474 or in account 419 - Interest and Dividend Income. Items in this account shall include:
1. Gross income from nonutility operations; and
2. Net gain on sale of nonutility property.

426. **Miscellaneous Nonutility Expenses**
This account shall contain all expenses other than expenses of utility operations and interest expense. Items which are included in this account are:
1. Expenses disallowed in a proceeding before the Commission.
2. Amortization of an Acquisition Adjustment not approved by the Commission.
3. Depreciation associated with plant not used and useful in the public service.
4. Depreciation of Nonutility Plant.
5. Imprudent expenses.
6. Donations for charitable, social or community welfare purposes.
7. Life insurance on officers and employees where utility is beneficiary (net premiums less increase in cash surrender value of policies).
8. Penalties or fines for violations of statutes pertaining to regulation.
9. Expenditures for the purpose of:
   a. Influencing public opinion with respect to the election or appointment of public officials, or the adoption, repeal, revocation or modification of referenda, legislation or ordinances.
   b. Influencing public opinion with respect to obtaining approval, modification or revocation of franchises.
   c. Influencing the decisions of public officials not including such expenditures that are directly

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		Results As filed Company company filing
		27,825
		634,252
		-
		2,222
		636,474
	ses	
		372,000
		62,000
		52,080
		23,252
		330
		-
	operty	32,525
		-
		12,562
		876
		43,643
		-
		1,200
		341
		-
		276
		1,200
		2,320
		-
		1,200
		3,666
		2,700
		341
		655
		492
		1,690
		437
		7,192
		5,643
		628,620
		7,854
45		-
46	Net Operating Income	7,854

Review of the
of operations

426. Miscell
Nonutility
Expenses
This account
contain all
expenses oth
than expense
utility oper
and interest
expense.

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Pt. 101

421.1 Gain on disposition

This account shall be
the gain on the sale, co
change, or transfer of ut
property to another. Am
to gains on land and lar
for future use recorded i
Electric Plant Held for F
be accounted for as pres
graphs B, C, and D ther
tric plant instructions 5F
Income taxes on gains re
account shall be record
409.2, Income Taxes, Oth
Deductions.

421.2 Loss on disposition

This account shall be
the loss on the sale, co
change or transfer of ut
property to another. Am
to losses on land and la
for future use recorded i
Electric Plant Held for F
be accounted for as pres
graphs B, C, and D ther
tric plant instructions 5F
The reduction in income
to losses recorded in this
be recorded in account
Taxes, Other Income and

425 Miscellaneous amorti

This account shall incl
tion charges not includi
counts which are properl
determining the income
before interest charges. C
ible herein, if significan
must be in accordance w
and systematic amortizat

ITEMS

1. Amortization of utility p
adjustments, or of intangib
utility plant in service whe
to be included in utility op
by the Commission.
2. Other miscellaneous
charges allowed to be incl
count by the Commission.

426 [Reserved]

SPECIAL INSTRUCTIONS—A
426.2, 426.3, 426.4 a

These accounts shall inclu
expense items which are non
ture but which are properly

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.

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 or ordinances or repeal or modification of existing referenda, legislation or ordinances) or approval, modification, or revocation of franchises; or for the purpose of influencing the decisions of public officials, but shall not include such expenditures which are directly related to appearances before regulatory or other governmental bodies in connection with the reporting utility's existing or proposed operations.

426.5 Other deductions.

This account shall include other miscellaneous expenses which are nonoperating in nature, but which are properly deductible before determining total income before interest charges.

ITEMS

1. Loss relating to investments in securities written-off or written-down.
2. Loss on sale of investments.

	Results As filed Company
	company filing
	27,825
	634,252
	-
	2,222
	636,474
	372,000
	62,000
	52,080
	23,252
	330
	-
	32,525
	-
	12,562
	876
	43,643
	-
	1,200
	341
	-
	276
	1,200
	2,320
	-
	1,200
	3,666
	2,700
	341
	655
	492
	1,690
	437
	7,192
	5,643
	628,620
	7,854
	-
	7,854

Review of the results o

Line No.		Results As filed Company
1	Operating Revenue	company filing
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44		
45		-
46	Net Operating Income	7,854

426. Miscellaneous Nonutility Expenses

This account shall contain all expenses other than expenses of utility operations and interest expense. Items which are included in this account are:

1. Expenses disallowed in a proceeding before the Commission.
2. Amortization of an Acquisition Adjustment not approved by the Commission.
3. Depreciation associated with plant not used and useful in the public service.
4. Depreciation of Nonutility Plant.
5. Imprudent expenses.
6. Donations for charitable, social or community welfare purposes.
7. Life insurance on officers and employees where utility is beneficiary (net premiums less increase in cash surrender value of policies).
8. Penalties or fines for violations of statutes pertaining to regulation.
9. Expenditures for the purpose of:
   a. Influencing public opinion with respect to the election or appointment of public officials, or the adoption, repeal, revocation or modification of referenda, legislation or ordinances.
   b. Influencing public opinion with respect to obtaining approval, modification or revocation of franchises.
   c. Influencing the decisions of public officials not including such expenditures that are directly

Review of the results o

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   c. Influencing the decisions of public officials not including such expenditures that are directly

Review of the results of operations

Disallowed Expenses from prior cases

The auditor should review prior orders of the commission related to the audited company to prevent the inadvertent allowance into rates of costs that have be disallowed in a prior preceding. The is especially true when it has been a number of years since the last preceding.

utility operations and interest expense.

NARUC Water USoA

Line No.		Results As filed Company
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5	Ready to Serve	2,222
6		
		636,474
	intenance Expenses	
		372,000
	- Officers	62,000
		52,080
		23,252
	arges	330
	pplies	-
	Buildings/Real Property	32,525
	n	-
		12,562
	xpenses	876
	ense	43,643
		-
		1,200
24	Other Tax & Licenses	341
25	Regulatory Expense	-
26	Postage Mailing	276
27	Contractual Services - CPA	1,200
28	Contractual Services - Legal	2,320
29	Contractual Services - Engineering	-
30	Legislative Expense	1,200
31	Charitable Contributions	3,666
32	Bad Debt	2,700
33	Repair & Maintenance	341
34	Telephone	655
35	Dues and Fees	492
		1,690
		437
		7,192
		5,643
		28,620
		7,854
45		-
46	Net Operating Income	7,854

The auditor should also consider talking to prior staff assigned to the case. It is not unusual that a prior auditor that has been reassigned will remember any issues or disallowances.

Review of the results o

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   a. Influencing public opinion with respect to the election or appointment of public officials, or the adoption, repeal, revocation or modification of referenda, legislation or ordinances.
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Review of the results of operations

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	Buildings/Real Property	32,525
	n	-
		12,562
	xpenses	876
	pense	43,643
		-
		1,200
	enses	341
	nse	-
		276
	ices - CPA	1,200
	ices - Legal	2,320
	ices - Engineering	-
	nse	1,200
	ibutions	3,666
		2,700
	nance	341
		655
		492
		1,690
		437
		7,192
		5,643
		28,620
		7,854
45		-
46	Net Operating Income	7,854

Amortization into operating income of unauthorized acquisition adjustments.
If a company has on its regulatory books an acquisition adjustment for a prior purchase of a regulated system, it MAY NOT show up on its accounting records if it is a smaller system. Many small systems will have a local accountant, which is not familiar with regulatory accounting maintain the company books on either a tax basis or GAAP. It that case the acquisition adjustment will not be reflected.

The Auditor should confirm no purchases of other systems. If there is a purchase was an acquisition adjustment determined and if so, was the recover allowed or disallow.

Review of the results o

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45		-
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3. Depreciation associated with plant not used and useful in the public service.
4. Depreciation of Nonutility Plant.
5. Imprudent expenses.
6. Donations for charitable, social or community welfare purposes.
7. Life insurance on officers and employees where utility is beneficiary (net premiums less increase in cash surrender value of policies).
8. Penalties or fines for violations of statutes pertaining to regulation.
9. Expenditures for the purpose of:
   a. Influencing public opinion with respect to the election or appointment of public officials, or the adoption, repeal, revocation or modification of referenda, legislation or ordinances.
   b. Influencing public opinion with respect to obtaining approval, modification or revocation of franchises.
   c. Influencing the decisions of public officials not including such expenditures that are directly

Review of the results of operations

Depreciation associated with plant not used and useful in the public service
OR Depreciation of Nonutility Plant.
Rates should not include the cost of either. Any plant purchased and on the books of the company that is not providing some form of service to the rate payer should be disallowed and charged to Account 426. This is the same with any form of nonutility plant.

expense.

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These adjustments are commonly found in a site visit to the company. If possible, an auditor should schedule a site visit to a company any time there has been a number of years since the last review or if there has been a major change in asset or operating costs.

Line No.		Results As filed Company
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2	Unmetered Water Revenue	27,825
3	Metered Water Revenue	634,252
4	Fire Protection Revenue	-
5	Ready to Serve	2,222
6		
		636,474
	...intenance Expenses	
		372,000
	... - Officers	62,000
		52,080
		23,252
	...arges	330
	...pplies	-
	... Buildings/Real Property	32,525
	...n	-
		12,562
	...xpenses	876
	...ense	43,643
		-
		1,200
	...enses	341
	...nse	-
		276
	...ices - CPA	1,200
	...ices - Legal	2,320
29	Contractual Services - Engineering	-
30	Legislative Expense	1,200
31	Charitable Contributions	3,666
		2,700
		341
		655
		492
		1,690
		437
		7,192
		5,643
		28,620
		7,854
		-
46	**Net Operating Income**	7,854

Review of the results o

Line No.		Results As filed Company
1	Operating Revenue	company filing
2	Unmetered Water Revenue	27,825
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44		
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426. Miscellaneous Nonutility Expenses

This account shall contain all expenses other than expenses of utility operations and interest expense. Items which are included in this account are:

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6. Donations for charitable, social or community welfare purposes.
7. Life insurance on officers and employees where utility is beneficiary (net premiums less increase in cash surrender value of policies).
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   c. Influencing the decisions of public officials not including such expenditures that are directly

Review of the results of ope

Disallowance of imprudent expenses. Imprudent expenses are expenses that are lacking discretion, wisdom, or good judgment and can be one of the most difficult to detect in an audit. An auditor challenging an expense as imprudent must have a sound basis which can be documented. Salaries are a common expense found imprudent.

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than expenses of utility operations and interest expense.

NARUC Water U

Line No.		Results As filed Company
1	Operating Revenue	company filing
2	Unmetered Water Revenue	27,825
3	Metered Water Revenue	634,252
		-
		2,222
		636,474
	xpenses	
		372,000
		62,000
		52,080
		23,252
		330
		-
	eal Property	32,525
		-
		12,562
		876
		43,643
		-
23	Office Supplies	1,200
24	Other Tax & Licenses	341
25	Regulatory Expense	-
26	Postage Mailing	276
27	Contractual Services - CPA	1,200
		2,320
		-
		1,200
		3,666
		2,700
		341
		655
		492
		1,690
		437
		7,192
		5,643
		28,620
		7,854
		-
		7,854

Imprudent costs can be detected in a site visit to the company. However, cost awareness is the best audit tool. Know the going costs can give the auditor clues as to spending abuses. If possible, if a company must make a large investment, an open sealed bidding process should be followed to assure a reasonable cost to the ratepayers.

Review of the results o

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Review of the results of operations

Donations for charitable, social or community welfare purposes.

One of the most common small company audit adjustments. Charitable contributions are normally easy to find (income tax reasons) and auditors normally should have not difficulty in determining the amount.

The real issue normally is what the company would say is a lack of fairness on the auditor's side. It is not the intent to direct where the utility can spend its money, but rather, to decide how much of that expense should be paid by ratepayers rather than shareholders.

(NARUC Rate case & Audit Manual)

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(NARUC Rate case & Audit Manual)

Line No.		Results As filed Company
1	Operating Revenue	company filing
2	Unmetered Water Revenue	27,825
3	Metered Water Revenue	634,252
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6		
		636,474
	intenance Expenses	
		,000
		,000
		,080
		,252
		330
		-
		,525
		-
		,562
		876
		,643
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		341
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		,643
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	me	
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44		
45		-
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Review of the results of operations

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		636,474
	...intenance Expenses	
		372,000
	... - Officers	62,000
		52,080
		23,252
	...arges	330
	...pplies	-
	... Buildings/Real Property	32,525
	...n	-
		12,562
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		-
		1,200
	...enses	341
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		276
	...ices - CPA	1,200
	...ices - Legal	2,320
29	Contractual Services - Engineering	-
30	Legislative Expense	1,200
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32	Bad Debt	2,700
		341
		655
		492
		1,690
		437
		7,192
		5,643
		28,620
		7,854
45		-
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Life insurance on officers and employees where utility is beneficiary
"Key Person" life insurance is a policy that will provide funds to the company if in the unfortunate event a senior level manager or employee dies allowing the company funds to continue operations will filling the position. Also called Corporate owned life insurance. The premiums are not recoverable in rates.

expense.

NARUC Water USoA

Although the premiums are disallowed, and amounts received by the company are not used to off-set revenue requirement. *This treatment is consistent with IRS income tax treatment of the cost.*

Review of the results o

Line No.		Results As filed Company
1	Operating Revenue	company filing
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...HEDULE C-3

Restating Adjustment RA-8
Bad Debt Expense

Line No.				
1				
2				
3	Per Books		$	53,613
4	Average Method			18,526
5	Adjustment		$	(35,088)
6				
7				
8		Aveage Method		
9				
10			Write-off	
11		Year	Amount	
12		2016		-
13		2017		-
14		2018		-
15		2019		57,540
16		2020		-
17		2021		53,613
18		Total		111,153
19		Average		18,526
20				
21				
22				
23	percent of revenue	3,075,000		0.60%
24				
25				

		2019 Results As filed Company
		company filing
		27,825
		634,252
		-
		2,222
		636,474
		372,000
		62,000
		52,080
		23,252
		330
		-
		32,525
		-
		12,562
		876
		43,643
		-
		1,200
		341
		-
		276
		1,200
		2,320
		-
		1,200
		3,666
		2,700
		341
		655
		492
		1,690
		437
		7,192
		5,643
		628,620
43	Before Interest and Taxes	7,854
44		
45		-
46	Net Operating Income	7,854

Review of the results of operations

Penalties or fines for violations of statutes pertaining to regulation
Penalties and fines are not allowed because they are not in the public interest and not used and useful. The disallowance "flows through" the cost to the shareholders maintaining the intent of the penalty or fine. (change behavior?)

utility operations and interest expense.

NARUC Water US

Line No.		Results As filed Company
1	Operating Revenue	company filing
2	Unmetered Water Revenue	27,825
3	Metered Water Revenue	634,252
4	Fire Protection Revenue	-
5	Ready to Serve	2,222
6		
		636,474
	intenance Expenses	
		372,000
	- Officers	62,000
		52,080
		23,252
	arges	330
	pplies	-
	Buildings/Real Property	32,525
	n	-
		12,562
	xpenses	876
	pense	43,643
		-
		1,200
24	Other Tax & Licenses	341
25	Regulatory Expense	-
26	Postage Mailing	276
27	Contractual Services - CPA	1,200
		320
		-
		200
		666
		700
		341
		655
		492
		690
		437
		192
		643
		620
		854
45		-
46	Net Operating Income	7,854

Penalties or fines of the commission are easily found in the record of the company. However, payments to other agencies may be found in a regulatory debit account (407) FERC or Regulatory Expense (667) NARUC.
An auditor's due diligence research may also find issues (penalties) with other regulators.

Review of the results of operations

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 or ordinances or repeal or modification of existing referenda, legislation or ordinances) or approval, modification, or revocation of franchises; or for the purpose of influencing the decisions of public officials, but shall not include such expenditures which are directly related to appearances before regulatory or other governmental bodies in connection with the reporting utility's existing or proposed operations.

Line No.		Results As filed Company
1	**Operating Revenue**	company filing
2	Unmetered Water Revenue	27,825
3	Metered Water Revenue	634,252
4	Fire Protection Revenue	-
5	Ready to Serve	2,222
6		
7		
8		636,474
	Operating & Maintenance Expenses	
	Other Tax & Licenses	341
	Regulatory Expense	-
	Postage Mailing	276
	Contractual Services - CPA	1,200
	Contractual Services - Legal	2,320
	Contractual Services - Engineering	-
	Legislative Expense	1,200
	Charitable Contributions	3,666
	Bad Debt	2,700
	Repair & Maintenance	341
	Telephone	655
	Dues and Fees	492
	Fuel and Transportation	1,690
	Supplies & Materials	437
	Utility / Power	7,192
	Water Treatment & Testing	5,643
	Total Operating Expenses	628,620
41		
42	**Operating Income**	
43	**Before Interest and Taxes**	7,854
44		
45		-
46	**Net Operating Income**	7,854

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 purpose of:
blic  opinion  with  respect  to  the
ointment of public officials, or the
al,  revocation  or  modification  of
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ication or revocation of franchises.
 decisions  of  public  officials  not
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Expenditures for certain civic, political and related activities

The auditor should identify two types of expenditures. Expenditures for direct lobby activities which includes payments to politicians or lobbyist. But there are also expenditures to organizations that spend a portion of the funds they receive on lobbying. Trade organsations or labor groups can be included in this category. The question the auditor must answer is what portion of dues or assessments from those organizations are reasonably included in rates relative to the provision of service.

	Results As filed Company
Revenue	company filing
Water Revenue	27,825
er Revenue	634,252
on Revenue	-
ve	2,222
	636,474
Maintenance Expenses	
ges	372,000
ges - Officers	62,000
	52,080
ions	23,252
Charges	330
d supplies	-
se - Buildings/Real Property	32,525
nsion	-
	12,562
s Expenses	876
Expense	43,643
AC	-
ies	1,200
Licenses	341
xpense	-
ing	276
Services - CPA	1,200
Services - Legal	2,320
Services - Engineering	-
xpense	1,200
ontributions	3,666
	2,700

NARUC Water USoA

Dues to trade organizations routinely support the provision of utility service but invoices should be reviewed for the dues paid, since they normally indicate what portion of the dues is for the support of political activity.

(NARUC Rate case & Audit Manual)

ACRONYMS

Poll Question

Which of the below is NOT an acronym?

1. NARUC
2. GAAP
3. AFUDC
4. All of the above are acronyms

ACRONYMS

Poll Question

Which of the below is NOT an acronym?

1. NARUC
2. GAAP
3. AFUDC
4. All of the above are acronyms

acronym *noun*

Save Word

ac·ro·nym | \ ˈa-krə-ˌnim \

Merriam-Webster SINCE 1828

Definition of *acronym*

: a word (such as *NATO*, *radar*, or *laser*) formed from the initial letter or letters of each of the successive parts or major parts of a compound term

Frequently Asked Questions About *acronym*

What is the difference between an acronym and an initialism?

Both acronyms and initialisms are made up of the first letter or letters of the words in a phrase. The word *acronym* typically applies when the resulting thing can be read as a word; for example, *radar* comes from "*ra*dio *d*etection *a*nd *r*anging" and *scuba* comes from "*s*elf-*c*ontained *u*nderwater *b*reathing *a*pparatus." The word *initialism* only applies when the resulting thing is read as an abbreviation; for example *DIY*, which comes from "*d*o *i*t *y*ourself," is pronounced by saying the names of the letters.

Final Steps – Finishing Up

Small Companies

- A regulatory audit should result in an analysis and unbiased assessment of the information and collected evidence of filing before the commission.
    - Organize you workpaper making sure to remove anything not used. A bunch of papers my look impressive but are worthless when the workpapers are reviewed in two or three years.
    - Consider a "top of file" memo that describes (to the next auditor) issues or things to follow up on in the next case.
    - Meet with the company to share your recommendation –
        - Before the final report is submitted the auditor It is common to have a closing discussion with the utility representatives at the end of the audit. During the meeting the audit team needs to straight with the company and voice any concerns that might exist.
        - The company should already be aware of the adjustments recommended by the auditor since they should have already had the opportunity to rebut the individual conclusions of the auditor.
        - **Discuss what the issues are and what options are available!**

Final Steps – Finishing Up

Large Companies

- A regulatory audit should result in an analysis and unbiased assessment of the information and collected evidence of filing before the commission.
  - Begin the process of writing testimony and preparing exhibits.
  - Begin organizing the audit workpapers by labeling and indexing. – The workpaper structure may be a standard agency arrangement or you may have to create a system that works for your issues.
  - Any controversial adjustments should be supported by the audit workpapers.
  - Recognized that your workpapers associated with any controversial position that is contrary to any of the other parties in the case will be requested through data requests once your testimony is filed.
  - In large cases, the auditor will likely be assigned a relatively small portion of the total case, but it may have a material impact on the final results.
  - **STAY ORGANIZED!** Especially if you are responsible for confidential material. During settlement stages, positions and requests for information moves fast. Being organized from the start puts you on solid footing.

Regulatory audit Exercises

Exercise - Capital

A company files a case that includes an addition to plant in service that will come on line three months into the rate year. The project is currently using AFUDC to account for financing costs. The contractor is on schedule to completion and assures the auditor that it will meet the scheduled completion date. If the new plant is not included rates, it may cause a sharp drop in both the company's credit rating and possible drop in stock price.

Discuss what the issues are and what options are available

Issues:

- Completion is not 100% assured
- Used and useful (state law)
- AFUDC stops accruing once the plant is complete.

Options:

- Continue the use of AFUDC until next case
- Include only 9/12 (3/4) of the expense and return in rates
- Surcharge

Exercise - Expenses

A water company finds out that a local asphalt plant has been storing asphalt over the local watershed and the company fears that the asphalt byproducts may, over time, leach into its water supply. The company has hired the top ecology law firm in the state to file a cease-and-desist order with the courts and prepare a case for damages. It has also hired a national engineering firm to test for contamination.

The company has filed to recover the costs of both the law firm and the engineering studies. After research, the auditor has found that the county has also begun its own legal actions and water contamination studies along with a local environmental protection group.

Issues:

- Does the company have a duty to protect the water shed?
- Did they need to hire the most expense available representation?
- Others are already doing the work to address the water contamination

Options:

- Disallow all expenses
- Allow a portion of the expense

Questions or Comments?

Thank You!