

# California Water Association Small Company “How To” Workshop

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Using Regulatory Tools  
for Your Financial Advantage  
South Lake Tahoe  
October 22, 2010



# Scope of Workshop

- Review of California PUC Accounting Practices for Small Systems
- Objectives
  - Increase understanding and comfort level with CPUC accounting procedures
  - Assist in preparation of annual reports and rate increase advice letters
  - Provide answers to your questions
- Agenda Highlights
  - Ratemaking and Regulatory Procedures Overview
  - Annual Reports: It Begins Here
  - Advice Letter Filings: Opportunities for Cost Recovery
  - Questions and Answers



# Competing Objectives Of Water Rates

- Water Utility Wants Rates That Are . . .
  - Financially Viable, Provide Stable Revenue
- Customers Want Rates That Are . . .
  - Equitable
  - Affordable
  - Easily Understood
- Society Wants Rates That Are . . .
  - Economically Efficient
  - Designed To Promote Public Health And Safety



# Criteria For A Sound Rate Structure

- Simple, Understandable
- Freedom From Controversy
- Effective In Yielding Total Revenue Requirement
- Revenue Stability For The Utility
- Revenue Stability For Customers
- Fairness Among Customer Classes
- Avoid “Undue Discrimination”
- Efficient (Discourages Wasteful Use)



# How Small Company Revenue Requirement Is Established Return On Investment Method

- + Allowable Expenses \$ \_\_\_\_\_
- + Taxes Other Than Income \$ \_\_\_\_\_
- + Income Taxes \$ \_\_\_\_\_
- + Depreciation \$ \_\_\_\_\_
- + Return On Investment \$ \_\_\_\_\_
  
- = Revenue Requirement \$ \_\_\_\_\_



# Small Company Rate Of Return Method

## How Return On Investment Is Calculated

- + Allowable Expenses
- + Taxes Other Than Income
- + Income Taxes
- + Depreciation
- + Return On Investment
- = Revenue Requirement

- + Avg. Plant
- + Allowance For Working Capital
- + Materials & Supplies
- Avg. Accumulated Depreciation
- Avg. Contributions In Aid Of Construction
- Avg. Advances For Construction

= Rate Base

x Authorized Rate Of Return

(Class C = 12% to 13%, Class D = 12.75 to 13.75%)

= Return On Investment



# How Small Company Revenue Requirement Is Established Rate Of Margin Method

- + Allowable Expenses \$ \_\_\_\_\_
- + Taxes Other Than Income \$ \_\_\_\_\_
- + Income Taxes \$ \_\_\_\_\_
- + Depreciation \$ \_\_\_\_\_
- + Rate Of Margin \$ \_\_\_\_\_
  
- = Revenue Requirement \$ \_\_\_\_\_



# Small Company Rate Of Margin Method

- + Allowable Expenses
- + Taxes Other Than Income
- + Depreciation
- + Rate Of Margin (\$)
- + Income Taxes
  
- = Revenue Requirement

## How Rate Of Margin Amount Is Calculated

+ Allowable expenses  
+ Taxes Other Than Income  
+ Depreciation

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= Operating Expenses

x Authorized Rate Of Margin (%)  
(Class C = 19%, Class D = 20%)

= Rate of Margin (\$)





# CPUC System Of Accounts – “What You Really Need” Version

- Operating Revenue Accounts
  - 460: Unmetered water revenue
  - 462: Fire Protection revenue
  - 465: Irrigation revenue
  - 470: Metered water revenue
  - 480: Other water revenue
- Operating Expense Accounts
  - 610: Purchased water
  - 615: Purchased power
  - 618: Other volume-related expenses
  - 630: Employee labor
  - 640: Materials
  - 650: Contract work (exclude water testing)
  - 660: Transportation expense
  - 664: Other plant maintenance
  - 670: Office salaries
  - 671: Management salaries
  - 674: Employee pensions & benefits
  - 676: Uncollectibles expense
  - 678: Office services and rentals
  - 681: Office supplies and expenses
  - 682: Professional services
  - 684: Insurance
  - 688: Regulatory Commission expense
  - 689: General expenses
  - 403: Depreciation expenses
  - 408: Taxes other than income taxes
  - 409: Income tax on proposed net income



# Small Company Standard Practices

- SP U-03-SM** Preparing Results of Operation Reports for General Rate Increase Requests of Water Utilities other Than Major Companies
- SP U-04-SM** Depreciation Procedures for Small Water and Sewer System Utilities
- SP U-05-SM** Determining Fixed Capital and Rate Base of Class B, C, & D Water Utilities
- SP U-08-W** Creating and Processing Water and Sewer System Advice Letter Filings and Resolutions; and Maintaining Tariffs Under General Order No. 96-B
- SP U-09-SM** Processing Informal General Rate Cases of Class B, C and D Water and Sewer Utilities and the Service Guarantee Plan
- SP U-13-W** Preparing and Processing Small Water Company Advice Letter Filings for Financing
- SP U-27-W** Processing Rate Offsets; Establishing and Amortizing Memorandum Accounts
- SP U-28-W** Collecting and Processing Customer Rates, Fees and Charges Under General Order 96-B
- SP U-39-W** Uniform System of Accounts for Class B, C, and D Water Utilities



# Annual Report Preparation

## Jim Downey, Chair – CWA Small Company Committee

- Class D Companies
- Class C Companies



# Introduction

## Annual Report Preparation

### Class C & Class D Water Utility Annual Reports (ARs):

- Must be filed by March 31 each year
- On forms provided by the CPUC
- C & D forms are different, but are conceptually the same and require similar information
- In addition to requisite reporting, use ARs for internal utility analyses and evaluations



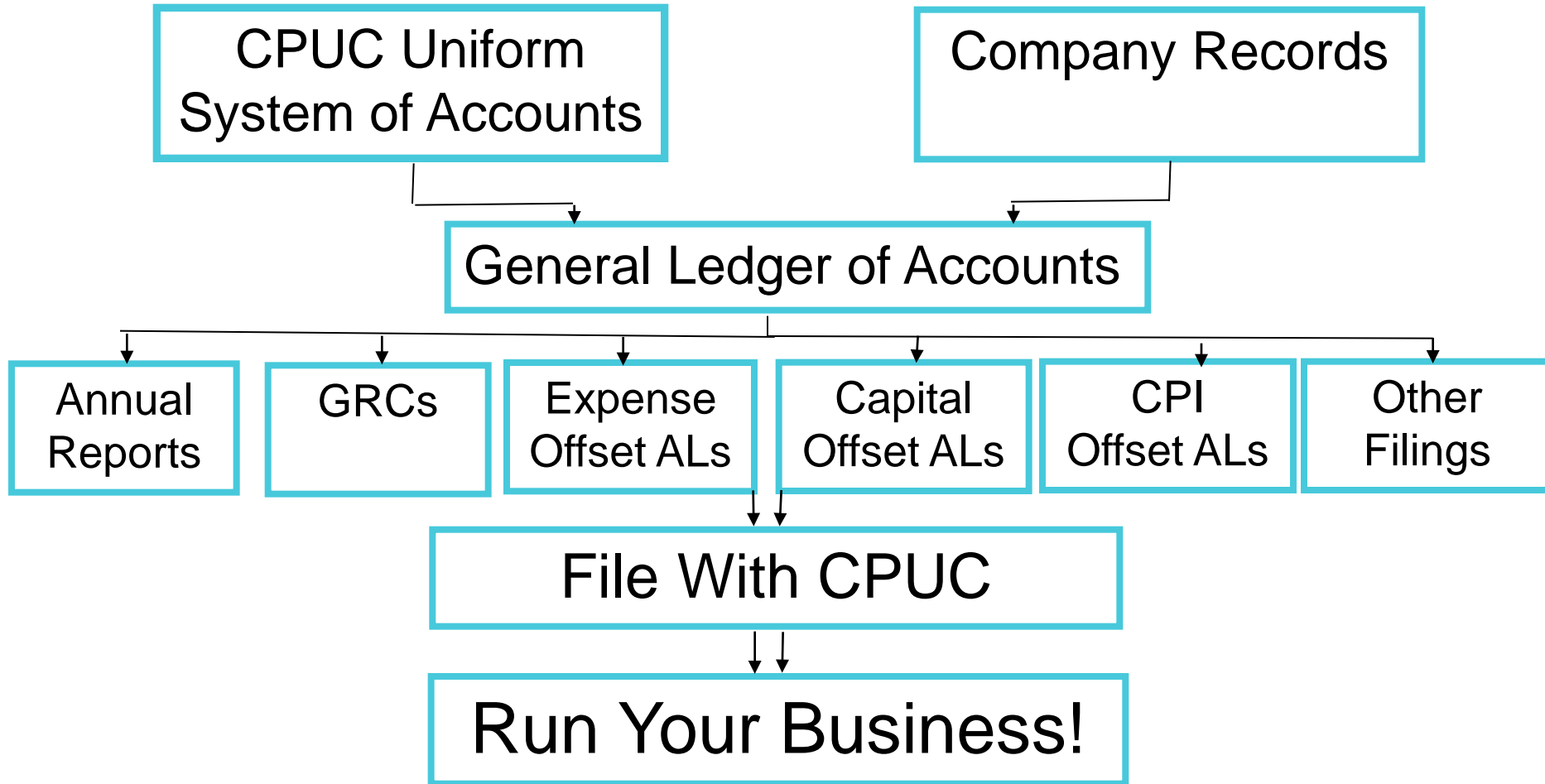
# Annual Report Preparation

## Annual Report Prerequisites

- Prior year AR (contains report year-beginning data)
- Complete and accurate database supported with records, receipts, paid bills, cancelled checks, etc.
- Familiarity with CPUC Uniform System of Accounts for Class B, C, and D Water Utilities (Decision 85-04-076)



# Accounting Flowchart



# CPUC System Of Accounts – Formal Version

- Balance Sheet Accounts
  - Assets (e.g., plant in service, depreciation, cash, accounts receivable, materials and supplies, etc.)
  - Equity and Liabilities (e.g., common stock, paid-in capital, retained earnings, long-term debt, accounts payable, accrued taxes and interest, current liabilities, advances for construction, etc.)
- Plant Accounts
  - Non-Depreciable (land, intangible plant)
  - Depreciable (structures, wells, pumping equipment, water treatment plant, reservoirs, tanks, mains, meters, hydrants, etc.)
- Income Accounts (revenues, expenses, taxes)
- Operating Revenue Accounts (metered and unmetered revenue, fire protection revenue, irrigation revenue)
- Operating Expense Accounts (plant O&M, administrative and general)



# Record-Keeping

- Regulation is fact-based
  - You are in a better position when you can prove you've spent the money in the past
- Keep records on all your expense items
- Keep receipts
- Keep your general ledger by system of accounts
- Code properly





# Capital Investment vs. Expenses

- What is a Capital Investment?
  - Generally anything that will benefit the customer for multiple (>2) years
  - Anything that extends the life of an asset
    - Coating a storage tank
  - Even small things, for example:
    - Laptop computer (\$1,000)
    - Chlorinator pump (\$300)



# Annual Report Core Sections

## 1.) Plant Valuation:

- Water Plant in Service      Sch B
- Depreciation                      Sch C
- Long Term Debt                  Sch E
- Balance Sheet                      Sch A

## 2.) Income:

- Income Statement      Sch F

## 3.) Quantities and Physical Plant:

- Water Sources                      Sch G
- Water Deliveries                  Sch H
- Physical Plant                      Sch K, L, M, N, O



# Optional AR Core Section: Explanatory Notes

- Notes may be incorporated into AR to explain, categorize, and memorialize the nature and details of AR account data entries
- Notes help reviewer understand the report – and help the utility to “recall” data sources during future analyses
- Inclusion of income tax calculations explain SIT and FIT data entries



# Annual Report Preparation Sequence

First: Refer to General Instructions – included in the report form package

- STEP 1: Complete the Balance Sheet (Sch A)
  - Complete, in sequence, Sch's B, C, D (if applicable), and E and transfer results to appropriate accounts on Sch A
  - Refer to *Balance Sheet Preparation* handout for detailed sequential process explanation



# Annual Report Preparation Sequence

- STEP 2: Complete the Income Statement (Sch F)
  - Operating revenues, expenses, and other taxes are entered directly from General Ledger
  - Depreciation Expense (Acct 403) is entered from Sch C
  - SIT and FIT are calculated using CPUC tax brackets
  - Refer to *Income Statement Preparation* handout for detailed example



# Annual Report Preparation Sequence

## STEP 3: Compile Explanatory Notes

- The Notes should follow the sequence of report preparation in Steps 1 and 2 above
- Cross-reference the Notes (numerically) in the line item data entries on schedules in Steps 1 and 2 as preparation proceeds
- Place compilation of Notes at the back of the report package



# Annual Report Preparation Sequence

## STEP 4: Enter Operating Quantity and Physical Plant Data

- Complete Sch's G, H, K, L, M, N, O with data from operating records and prior year AR plus current year additions to plant (from Sch B and associated Notes)
- Refer to listed schedules in *Example Annual Report* handout



# Annual Report Preparation Sequence

(Now that the heavy lifting is over ...)

- STEP 5: Complete the General Information Sheet and the Cover Title Sheet
- STEP 6: Complete requested SDWBA data sheets (if applicable)
- STEP 7: Complete requested Facilities Fees data sheet





# Annual Report Preparation Sequence

## STEP 8: Compute the Earnings Summary for Report Year

- Calculate and record average balance sheet data
- Record Earnings Summary:
  - Income Statement (repeat from Sch F)
  - Compute average rate base
  - Calculate Rate of Return (ROR)
- Refer to *Earnings Summary Example* handout
- Place Earnings Summary first behind Cover Title Sheet



# Annual Report Completion

- Check data entries for accuracy
- Check calculations
- Sign the Declaration
- Prepare “clean” copies
- File Report



# Class C Annual Report Format

- Presents the same information as Class D Report
- Balance Sheet is Sch A in two pages: Assets, Liabilities
- Sch A supporting schedules are labeled A-1 thru A-17
- Income Statement is Sch B
- Sch B supporting schedules are labeled B-1 thru B-6
- Water Source Quantities and Physical Plant data are presented on Schedules D-1 thru D-9
- Notes, SDWBA Data, Facilities Fees Data, Earnings Summary, and Declaration are same as for Class D Annual Report



# Concluding Remarks & Questions

