



Auditing and Accounting

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Topics

- Data Gathering and Analysis
- Revenue Requirement Components
- Non - Traditional Mechanisms



Data Gathering

- Data request
- Interviews
- Document review



Data Request

- Formal written questions (interrogatories)
- Due in 20 days
- Requires update if information changes
- Objection process
- Additional response time



Interviews

- Meetings with utility personnel or agents
- Hand written notes or transcribed
- Data request verification
- Opportunity for clarification



Document Review

- Books and records
- Documents produced by outside entities



Books and Records

- Monthly ledgers
- Monthly financial and statistical reports
- Specialized internal reports
- Board of Directors meetings and presentations



Outside Entities

- Outside auditor workpapers
- Financial rating agency reports
- Consultant special studies and reports
- Securities and Exchange Commission



Analysis

- Comparison to prior years
 - Average
 - Trend
- Comparison to budget
- Regulatory compliance
- Commission precedent
- Past Staff practice

Concepts

- Prudent
- Used and Useful
- Reflect ongoing operations
- Necessary for utility service
- Retroactive ratemaking
- Single Issue Ratemaking
- Original Cost/Acquisition
Adjustments
- Maintain an appropriate relationship
between investment revenues and
expenses
- Test Year



Revenue Requirement Components

- Revenue Requirement Calculation
- Rate Base
- Income Statement

Revenue Requirement

Rate Base \$1,000,000

**Auditing
Engineering
Depreciation**

Rate Of Return 10%

**Financial
Analysis**

Net Income Required \$100,000

Net Income Available \$90,000

**Auditing
Depreciation
Management
Services
Engineering**

Net Income Required \$10,000

Income Tax Factor 1.6231

**Auditing
Department**

Revenue Requirement **\$16,231**

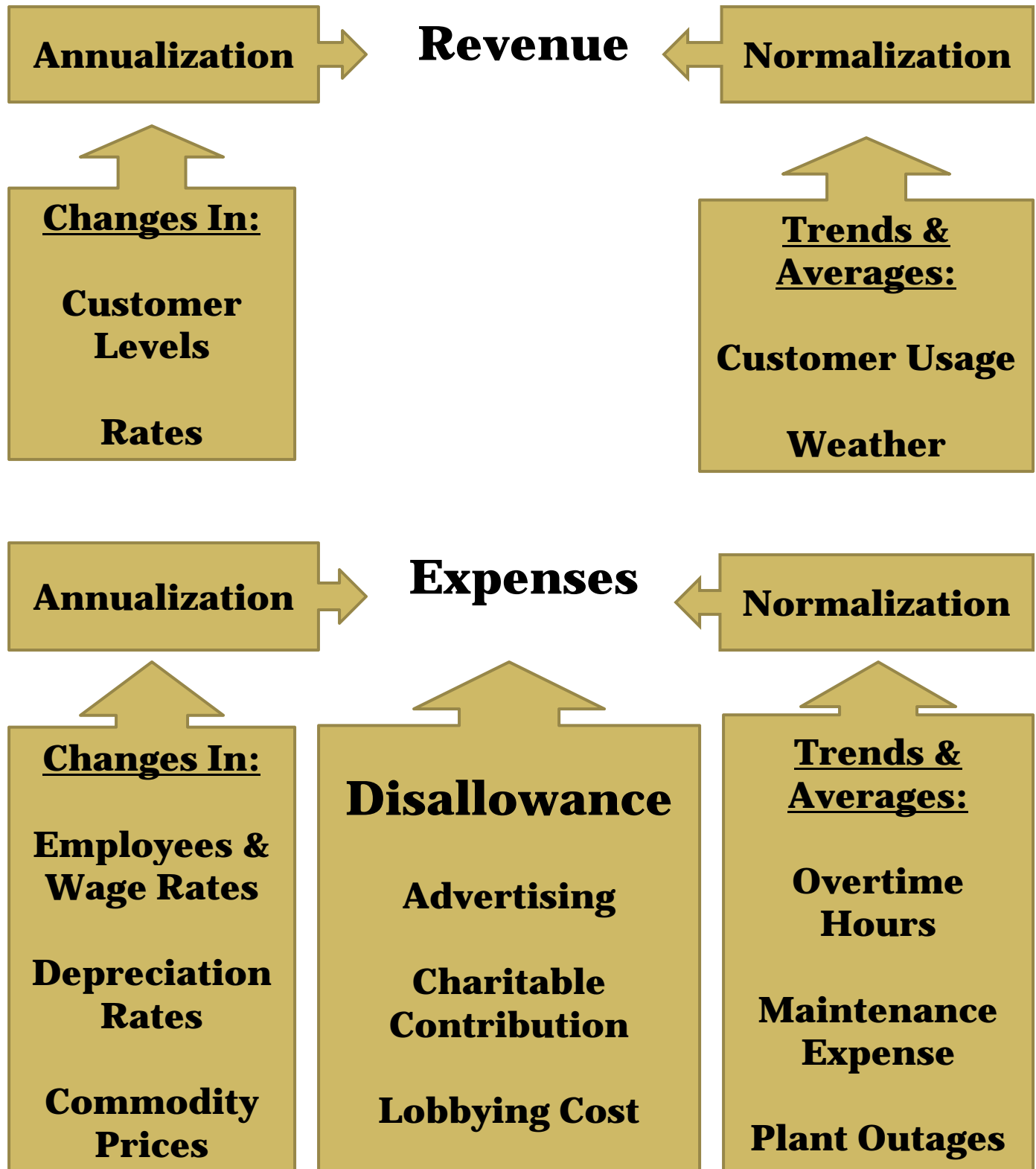
Rate Base

Plant	\$2,020,000	← Auditing Engineering
Depreciation Reserve	\$-900,000	← Auditing Depreciation
Cash Working Capital	\$-3,000	← Auditing
Materials and Supplies	\$28,000	← Auditing
Fuel Inventory	\$55,000	← Auditing Engineering
Prepayments	\$1,700	← Auditing
Customer Deposits	\$-1300	← Auditing
Customer Advances	\$-400	← Auditing
Deferred Taxes	\$-210,000	← Auditing
Regulatory Assets/Liabilities	<u>\$10,000</u>	← Auditing Engineering
Rate Base	\$1,000,000	

Rate Base

Plant	\$2,020,000	← Point In Time
Depreciation Reserve	\$-900,000	← Point In Time
Cash Working Capital	\$-3,000	← Lead/Lag Study
Materials and Supplies	\$28,000	← 13 Month Average
Fuel Inventory	\$55,000	← 75 Day Supply
Prepayments	\$1,700	← 13 Month Average
Customer Deposits	\$-1300	← Point In Time
Customer Advances	\$-400	← Point In Time
Deferred Taxes	\$-210,000	← Point In Time
Regulatory Assets/Liabilities	<u>\$10,000</u>	← Point In Time
Rate Base	\$1,000,000	

Income Statement





Presentation

- Findings/Recommendations are presented in Staff Reports
 - Revenue Requirement
 - Rate Design
- Explained in testimony by Staff experts/witnesses



Non-Traditional Mechanisms

- Fuel Adjustment Clause
- Infrastructure System Replacement Surcharge
- Trackers



Fuel Adjustment Clause

- Enacted through legislation
- Track fuel cost above base rates
- 3 accumulation periods
- Twelve month recovery period
- New department to administer the clause



ISRS

- Enacted through legislation
- Recovery of plant related costs between rate case
 - Return and taxes
 - Depreciation expense
 - Property taxes
- Effective for 3 years



Trackers

- Vegetation and inspections
- Commission rule change
- Track costs above base rates
- Temporary authorization



Questions & Answers