

Mission Statement:

The UTC protects consumers by ensuring that utility and transportation services are fairly priced, available, reliable, and safe.



Washington Utilities and Transportation Commission

Regulatory Accounting Systems

Prepared for: The Kyrgyz Republic SEA

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September 2004

US Accounting Systems



- Generally Accepted Accounting Principles (GAAP).
 - Applicable to all corporations in United States.
 - Established by Financial Accounting Standards Board, a non-profit organization of professional accountants.
 - Publishes standards for both broad application and for specific industries.
 - Government only recently is getting involved.

Standards for Regulated Industries



- Statement of Financial Accounting Standards Number 71 (FAS-71).
 - Titled: Accounting for the Effects of Certain Types of Regulation.
 - Relevant to companies whose prices are set by regulators.
 - The thrust of FAS-71 is that the regulatory process can provide the basis for an expenditure to be recognized as an asset, rather than a period cost.

Other Financial Standards



- Regulated companies are also governed by:
 - FAS 90 -- Accounting for Abandonments and Disallowances of Plant Costs
 - FAS 92 – Accounting for Phase-in Plans
 - FAS 101 – Accounting for the Discontinuation of Application of FAS-71
 - FAS 106 – Employers' Accounting for Postretirement Benefits Other than Pensions
 - FAS 109 – Accounting for Income Taxes
 - FAS 144 – Accounting for the Impairment or Disposal of Long-lived Assets
 - And all those generally applicable to corporations

Accounting Systems



- The Uniform System of Accounts (USoA) is followed by all utilities. The USoA is required by the Federal Energy Regulatory Commission (FERC), a section of the United States Department of Energy.
 - The USoA follows familiar forms of accounts, but explains in detail what may be included in each account.

Uniform System of Accounts – Example of Various Accounts



C. Hydraulic Production (asset accounts)

330 Land and land rights

331 Structures and improvements

332 Reservoirs, dams, and waterways

333 Water wheels, turbines and generators

334 Accessory electric equipment

335 Miscellaneous power plant equipment

336 Roads, railroads and bridges

Uniform System of Accounts – Detail of Account 331



- 331 Structures and improvements

This account shall include the cost in place of structures and improvements used in connection with hydraulic power generation. For Major utilities, it shall also include the cost in place of structures and improvements used in connection with (1) the conservation of fish and wildlife, and (2) recreation. Separate subaccounts shall be maintained for each of the above.

Accounting Systems in Practice



- Each utility determines its own method of complying with regulations.
 - Methods revolve around the computer software chosen for the accounting system.
 - Sophisticated systems able to create many reports to serve many purposes from the same basic information.
 - Complications include operating in many states, or providing different services, such as both electricity and natural gas.

Audit Capability



- Commission has broad authority to inspect company books and records.
- Audits cover selected accounts over selected periods of time.
 - Searches are to remove expenses or revenues outside the test period, to assure certain types of expenses are not included, to look for abnormal expenses.
 - Reviews look for items of a material amount.

Staff Audits



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- Audits most often occur in the context of a general rate case.
 - Staff visits the company to review ledgers, journals, and original documents.
 - Ledgers and journals are mostly computer based with selected accounts printed out.
 - Seeing original documents, also called source documents, are useful.

Source Documents



- Source documents are the invoices and contracts which originate an accounting entry.
 - Invoices for goods or services contain information about the specific service provided or product obtained.
 - The inquiring mind asks if the product or service was necessary and useful to the utility's customers.

Discovery in Formal Cases



- Audit is a form of discovery in general rate cases.
- Commission sets rules for discovery within scope of WAC 480-09-480, Methods for obtaining data in adjudicative proceedings.
- Forms of discovery include data requests, record requisitions, bench requests, and depositions.
- All parties to the proceeding receive all the information provided.

Data Requests



- Data requests are the most common form of discovery.
 - These are questions sent to any party or individual who presents testimony.
 - Data requests seek existing documents or studies or explanations of policies, positions, or documents.
 - Requests must be for relevant data.
 - Usually responses must be returned within ten working days.

Other Types of Discovery



- Record Requisitions
 - A request for data made during a hearing or deposition.
- Bench Request
 - A request for data made by the judge or Commissioners
- Deposition
 - The direct questioning of a witness without a presiding judge or Commissioners.

Use of Discovery in a General Rate Case



- Commission must base decisions on the “record” built during hearings.
- Data received during discovery is not part of the formal record until presented and accepted during the hearing.
- Parties have the right to cross-examine witnesses who prepare or testify to the data request.

Audits Outside of Formal Proceedings



- The utilities submit many reports throughout the year. Staff may review or audit those reports.
- To a great extent Staff relies on the companies' cooperation in responding to requests for data and in scheduling visits to the utility offices for audits.
- While our energy companies are cooperative, the Commission does have the power to order compliance by the utilities.

In Conclusion



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- Regulated utilities follow accounting principles set forth by the Financial Accounting Standards Board.
 - The Federal Energy Regulatory Commission establishes the chart of accounts for energy companies to follow.
 - In contested rate cases, Staff audits the utility and requests information through a formal discovery process.
 - Staff may request information at any time and receives the utilities' cooperation for compliance.