

# Georgian Tariff Methodology

*The Georgian National Energy and Water Supply Regulatory  
Commission*

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# **Amortization Rates**

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# *Amortization Rates*

- What is Amortization?
  - Amortization is the allocation of a cost over time.
- How is Amortization Calculated?
  - Cost divided by the number of years per year.
- What is the Difference between Amortization and Depreciation?
  - Amortization has a definite beginning and end for each cost amortized.
  - Amortization has no net salvage, no reserve rebalancing, and no retirement considerations.
  - Depreciation sets a reasonable rate to recover the average service life of property, including net salvage and any ongoing reserve rebalancing.
  - Depreciation accounting assumes property retires at its average service life, no matter what the age of the specific unit of plant is when removed from service.



# *Amortization Rates*

- What are Amortization Rates set for?
  - Intangible property
  - Deferred Debits and Credits (Regulatory Assets and Liabilities)
  - General property that determining accurate average service lives for is impractical, inefficient, and immaterial



# *Amortization Rates*

- Questions?



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# **Ex-Post Adjustment Methods for Investments**

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# *Ex-Post Adjustment Methods for Investments*

- What are ex-post adjustment methods for investments?
  - Original cost adjustments
  - Impairments
  - Regulatory recovery adjustments
- Are these all just the same thing?



# *Ex-Post Adjustment Methods for Investments*

## Original Cost Adjustment

- Changing the accounting asset basis
- Can go up or down
- Purchases of assets for more than original cost create Acquisition Adjustments.
  - Allow recovery or not?





# *Ex-Post Adjustment Methods for Investments*

## Impairments

- Temporary or permanent change the accounting asset basis?
- Goes down, but can be reversed
- Is it a change to the original cost?



# *Ex-Post Adjustment Methods for Investments*

## Regulatory Recovery Adjustments

- Does not change the accounting asset basis
- Can go up or down (but usually down)
- Allowed Acquisition Adjustments go up.
- Creates regulatory assets or liabilities.



# *Ex-Post Adjustment Methods for Investments*

- Questions?



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# **Expenses on capital improvements: Accounting entries and depreciation rules**

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# *Expenses on Capital Improvements*

- What are Capital Improvements?
  - Maintenance or Capitalize?
  - Retirement Units (asset units)
- Need to be clearly defined



# *Expenses on Capital Improvements*

## Accounting Entries

- Construction Work in Process (CWIP)
  - Purchase price
  - Installation labor
  - Overhead allocation
  - A lot of other little costs: to include or not include?
- Allowance for funds used during construction (AFUDC)?
- Transfer from CWIP to plant in service
  - Select the correct retirement unit (asset unit)
  - Book to the correct plant in service sub-account



# *Expenses on Capital Improvements*

## Depreciation

- Your rate should already be set...
- How often do you revise your depreciation rates?
- Creating new sub-accounts for new kinds of plant (and giving them their own depreciation rates)
- How many types of retirement units (asset units) can go in a plant sub-account?
- Can the same retirement units (asset units) go in different plant sub-accounts?



# *Expenses on Capital Improvements*

- Questions?



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