Economic and Technical Criteria Applied to Benchmarking

Credibility of Information

- Poor Record Keeping
- Aggressive Accounting
- Fraud

Types of Accounting Used by US Utilities

- Generally Accepted Accounting Principles (GAAP)
- Uniform System of Accounts
- Various Management Systems of Accounting (SAP, Peoplesoft, Oracle, etc.)

Reporting Requirements of Utilities

- Demand what you need.
- Do not require what you will not use.
- Other Financial Indicators:
  - Stock price
  - Credit rating
  - Comments in general and financial press
- Keep in contact with company representatives.

Ask Questions

Does the information make sense?

No regulatory approvals until all questions are answered.

THE SARBANES-OXLEY ACT OF 2002

Why Sarbanes-Oxley Act Was Enacted?

- The Sarbanes-Oxley act was enacted on July 30, 2002, largely in response to a number of major corporate and accounting scandals involving some of the most prominent companies in the United States. The scandals have resulted in a great loss of public trust in corporate accounting and reporting practices.

The Legislation of Corporate Accountability

- Sarbanes-Oxley established new or enhanced standards for corporate accountability and penalties for corporate wrongdoing. The legislation contains numerous requirements ranging from additional responsibilities for audit committees to tougher penalties for white-collar crimes such as securities fraud.

Requirements of Sarbanes-Oxley

- The law requires that company executives, boards of directors, and independent auditors take specific actions.

-- Company Executives

- Reaffirms that the CEO and CFO carry a primary responsibility for a company’s reports filed with the securities and exchange commission as well as the effectiveness of the underlying controls.
- Sarbanes-Oxley establishes a standard that is broader than GAAP, indicating the the CEO and CFO must provide financial statements and other financial information that is transparent in the way it fairly presents the company’s financial condition, results of operations and cash flows.

-- Board of Directors

- The board of directors, through its audit committee, is responsible for overseeing the company's accounting and financial reporting processes and audits of its financial statements. The law also imposes a new requirement to disclose whether or not at least one member of the audit committee is a "financial expert" and, if not, why. Finally, the audit committee is required to pre-approve any services provided by its external audit firm.

--External Auditor

- An independent public accounting firm reports on the fairness of the presentation of a company's financial statements in accordance with GAAP. Sarbanes-Oxley reaffirms the necessity for the auditor to be independent of management, in fact and appearance, and expands the auditor's reporting responsibility to the newly required management assertions on internal controls and procedures for financial reporting.

Corporate Governance Matters

- "Good" corporate governance can be measured.
- Ratepayers of state regulated utilities will be better off if regulated utilities and their parent holding companies adopt "good" corporate governance practices.
- State regulatory commissions should promote adoption of "good" corporate governance practices.

Could “Good” Corporate Governance Help Avoid/Minimize:

- Diversification Disasters?
- Trading Traumas?
- Market Manipulations?
- Credit Downgrades (Below Investment Grade)?
- Accounting Shenanigans?
- Bankruptcies?

Can "Good Corporate Governance Increase the Likelihood of:

- Higher Share prices?
- Better credit ratings?
- Lower and stable utility rates?
- Improved access to capital?
- Improved public relations and restored stakeholder confidence?
- Lower cost for director & officer insurance?