





Financial Statements: Practice

(Balance Sheet Presentation & Determination of Rate Base)

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Preface

- Balance Sheet
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 - Assets Definitions and Overview
 - Uniform System of Accounts
- Long Term Assets in Determination of Rate Base
- Current Assets in Determination of Rate Base
- Balance Sheet
 - Liabilities Definition and Overview
- Current Liabilities in Determination of Rate Base
- Final Determination of Rate Base
 - Conclusion

What is a Balance Sheet?

An organized array of...

- (1.) <u>assets</u> &
- (2.) liabilities

Assets - Liabilities = Stockholders Equity

Net Worth

How Do We Determine Rate Base?

| | (a) | (b) | (c) | (d) | (e) |
|----------|-------------------------------------------------------------------------------|-------------------|---------------|-------------------|---------------|
| | | | Total | | Total |
| Line | | | Company | | Staff |
| No. | <u>Description</u> | <u>Source</u> | Rate Base | <u>Adjustment</u> | Rate Base |
| 1 | | | | | |
| 2 | Plant in Service | Exh. S-2, Sch. B2 | 6,556,727 | (115,713) | 6,441,014 |
| 3 | Plant Held for Future Use | Exh. S-2, Sch. B2 | 7,747 | 0 | 7,747 |
| 4 | Plant Acquisition Adjustments | Exh. S-2, Sch. B2 | 0 | 0 | 0 |
| 5 | Construction Work in Progress | Exh. S-2, Sch. B2 | 199,379 | 77,277 | 276,656 |
| 6 | Less: Retentions | Exh. S-2, Sch. B2 | 1,107 | 0 | 1,107 |
| 7 | Nuclear Fuel Stock | Exh. S-2, Sch. B2 | 270,681 | 0 | 270,681 |
| 8 | Spent Nuc Fuel Disp-Spc MI Req | Exh. S-2, Sch. B2 | 0 | 0 | 0 |
| 9 | Total Utility Plant | | 7,033,427 | (38,436) | 6,994,991 |
| 10 | Adjust EPIS to Michigan Basis | | 15,047 | 0 | 15,047 |
| 11 | Asset Retirement Obligations | | (210,747) | 0 | (210,747) |
| 12 | Total Utility Plant - Michigan Basis | | 6,837,727 | (38,436) | 6,799,292 |
| 13 | | | | | |
| 14 | Depreciation Reserve | Exh. S-2, Sch. B3 | 3,269,234 | 53,142 | 3,322,376 |
| 15 | Adjust A/D to Michigan Basis | | (70,663) | 0 | (70,663) |
| 16 | Asset Retirement Obligations | | (69,346) | 0 | (69,346) |
| 17 | Accum. Depreciation-Michigan Basis | | 3,129,225 | 53,142 | 3,182,367 |
| 18 | | | | | |
| 19 | Net Utility Plant | | 3,708,503 | (91,578) | 3,616,925 |
| 20 | | | | _ | |
| 21 | Net Capital Lease Property | | 21,403 | 0 | 21,403 |
| 22 | Total HCD December and Disease | | 0.700.000 | (04.570) | 0.000.000 |
| 23 24 | Total Utility Property and Plant | | 3,729,906 | (91,578) | 3,638,328 |
| 24 25 | Less: Capital Lease Obligations | | 21,403 | 0 | 24 402 |
| 25 26 | Less. Capital Lease Obligations | | 21,403 | | 21,403 |
| 27 | Net Plant | | 3,708,503 | (91,578) | 3,616,925 |
| 28 | Net Flant | | 3,700,303 | (91,576) | 3,010,923 |
| 29 | Lasar Bafarrad Caira Cala of Bashran | | 40.005 | 0 | 40.005 |
| 29 30 | Less: Deferred Gain - Sale of Rockport Less: Gains Foreign Currency Derivativ | | 46,085 167 | 0 | 46,085 167 |
| | Less. Gains Foreign Currency Denvalin | ves | 107 | U | 107 |
| 31 | Alleman for Median Conits! | F., C O O. D. | 000 077 | (400) | 000 000 |
| 32 | Allowance for Working Capital | Exh. S-2, Sch. B4 | 223,377 | (408) | 222,969 |
| 33 34 | Total Projected Period Pate Page | | 2 005 620 | (01.096) | 2 702 642 |
| 34 | Total Projected Period Rate Base | | 3,885,628 | (91,986) | 3,793,642 |

(1.) Assets

"The...

- (a.) probable future economic benefits obtained or
- (b.) controlled by a particular entity as a result of
- (c.) past transactions or events."

FASB Concept Statement No. 6, Paragraph 25

(a.) Probable Future Economic Benefits

- Commonly Bought or Sold
- Acceptable to Creditors as Liability Settlement
- Used to Produce Goods or Services

"Incurrence of costs may be significant evidence of acquisition or enhancement of future economic benefits..."

FASB Concepts Statement 6, paragraphs 172 and 173

(b.) Controlled by a Particular Entity

"The entity having an asset is the one that can exchange it, use it to produce goods or services, exact a price for others' use of it, use it to settle liabilities, hold it, or perhaps distribute it to owners."

(C.) Past Transactions or Events

"An entity has no asset for a particular future economic benefit if the transactions or events that give it access to and control of the benefit are yet in the future."

Utility Plant

Utility Plant

| 101: | Electric Plant In Service |
|----------|----------------------------------------------------------|
| 102: | Electric Plant Purchased or Sold |
| 103: | Experimental Electric Plant Unclassified |
| 104: | Electric Plant Leased to Others |
| 105: | Electric Plant Held for Future Use |
| 106: | Completed Construction Not Classified |
| 107: | Construction Work In Progress |
| 108-113: | Accumulated Provisions for Depreciation and Amortization |
| 114: | Acquisition Adjustments |
| 115: | Amortization of Acquisition Adjustments |
| 116-119: | Other Adjustments (Utility Plant) |
| 120: | Nuclear Assets |
| | |

| Description | <u>Source</u> | Total Company <u>Rate Base</u> | <u>Adjustment</u> | Total Staff <u>Rate Base</u> | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------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| Plant in Service Plant Held for Future Use Plant Acquisition Adjustments Construction Work in Progress Less: Retentions Nuclear Fuel Stock Spent Nuc Fuel Disp-Spc MI Req Total Utility Plant Adjust EPIS to Michigan Basis Asset Retirement Obligations Total Utility Plant - Michigan Basis | Exh. S-2, Sch. B2 Exh. S-2, Sch. B2 | 6,556,727 7,747 0 199,379 1,107 270,681 0 7,033,427 15,047 (210,747) 6,837,727 | (115,713) 0 0 77,277 0 0 (38,436) 0 (38,436) | 6,441,014 7,747 0 276,656 1,107 270,681 0 6,994,991 15,047 (210,747) 6,799,292 | |
| Depreciation Reserve Adjust A/D to Michigan Basis Asset Retirement Obligations Accum. Depreciation-Michigan Basis Net Utility Plant | Exh. S-2, Sch. B3 | 3,269,234 (70,663) (69,346) 3,129,225 3,708,503 | 53,142 0 0 53,142 (91,578) | 3,322,376 (70,663) (69,346) 3,182,367 3,616,925 | |
| Total Utility Property and Plant Less: Capital Lease Obligations | | 3,729,906 21,403 | (91,578) | 3,638,328 21,403 | |
| | | 3,708,503 46,085 167 | (91,578) 0 0 | 3,616,925 46,085 167 | > |
| Allowance for Working Capital Total Projected Period Rate Base | Exh. S-2, Sch. B4 | 3,885,628 | (408) (91,986) | 222,969 3,793,642 | |
| | Plant in Service Plant Held for Future Use Plant Acquisition Adjustments Construction Work in Progress Less: Retentions Nuclear Fuel Stock Spent Nuc Fuel Disp-Spc MI Req Total Utility Plant Adjust EPIS to Michigan Basis Asset Retirement Obligations Total Utility Plant - Michigan Basis Depreciation Reserve Adjust A/D to Michigan Basis Asset Retirement Obligations Accum. Depreciation-Michigan Basis Net Utility Plant Net Capital Lease Property Total Utility Property and Plant Less: Capital Lease Obligations Net Plant Less: Deferred Gain - Sale of Rockport Less: Gains Foreign Currency Derivativ Allowance for Working Capital | Plant in Service Plant Held for Future Use Plant Acquisition Adjustments Construction Work in Progress Less: Retentions Nuclear Fuel Stock Spent Nuc Fuel Disp-Spc MI Req Total Utility Plant Adjust EPIS to Michigan Basis Asset Retirement Obligations Total Utility Plant - Michigan Basis Asset Retirement Obligations Accum. Depreciation-Michigan Basis Net Utility Plant Net Capital Lease Property Total Utility Property and Plant Less: Capital Lease Obligations Net Plant Less: Deferred Gain - Sale of Rockport U2 Less: Gains Foreign Currency Derivatives Allowance for Working Capital Exh. S-2, Sch. B2 Exh. S-2, Sch. B2 Exh. S-2, Sch. B3 Exh. S-2, Sch. B4 Exh. S-2, Sch. B4 Exh. S-2, Sch. B4 Exh. S-2, Sch. B4 | Description Source Company Rate Base Plant in Service Exh. S-2, Sch. B2 6,556,727 Plant Held for Future Use Exh. S-2, Sch. B2 7,747 Plant Acquisition Adjustments Exh. S-2, Sch. B2 0 Construction Work in Progress Exh. S-2, Sch. B2 199,379 Less: Retentions Exh. S-2, Sch. B2 1,107 Nuclear Fuel Stock Exh. S-2, Sch. B2 270,681 Spent Nuc Fuel Disp-Spc MI Req Exh. S-2, Sch. B2 0 Total Utility Plant 7,033,427 Adjust EPIS to Michigan Basis 15,047 Asset Retirement Obligations (210,747) Total Utility Plant - Michigan Basis (70,663) Asset Retirement Obligations (69,346) Accum. Depreciation-Michigan Basis 3,129,225 Net Utility Plant 3,708,503 Net Capital Lease Property 21,403 Total Utility Property and Plant 3,708,503 Less: Capital Lease Obligations 21,403 Net Plant 3,708,503 Less: Gains Foreign Currency Derivatives 167 Allowanc | Description Source Company Rate Base Adjustment Plant in Service Exh. S-2, Sch. B2 6,556,727 (115,713) Plant Held for Future Use Exh. S-2, Sch. B2 7,747 0 Plant Acquisition Adjustments Exh. S-2, Sch. B2 0 0 Construction Work in Progress Exh. S-2, Sch. B2 199,379 77,277 Less: Retentions Exh. S-2, Sch. B2 1,107 0 Nuclear Fuel Stock Exh. S-2, Sch. B2 270,681 0 Spent Nuc Fuel Disp-Spc MI Req Exh. S-2, Sch. B2 0 0 Total Utility Plant 7,033,427 (38,436) 0 Asset Retirement Obligations (210,747) 0 0 Asset Retirement Obligations Basis (210,747) 0 0 Asset Retirement Obligations Accum. Depreciation-Michigan Basis (70,663) 0 Asset Retirement Obligations Accum. Depreciation-Michigan Basis (70,663) 0 Accum. Depreciation-Michigan Basis (70,663) 0 Net Utility Plant 3,708,503 (91,578) Net Pla | Description Source Company Rate Base Adjustment Staff Rate Base Plant in Service Exh. S-2, Sch. B2 6,556,727 (115,713) 6,441,014 Plant Held for Future Use Exh. S-2, Sch. B2 7,747 0 7,747 Plant Acquisition Adjustments Exh. S-2, Sch. B2 0 0 0 Construction Work in Progress Exh. S-2, Sch. B2 199,379 77,277 276,656 Less: Retentions Exh. S-2, Sch. B2 1,107 0 1,107 Nuclear Fuel Stock Exh. S-2, Sch. B2 270,681 0 270,681 Spent Nuc Fuel Disp-Spc MI Req Exh. S-2, Sch. B2 0 0 0 0 Total Utility Plant 7,033,427 (38,436) 6,994,991 4,991 4,942 0 0 0 0 0 0 15,047 0 15,047 0 15,047 0 1210,747 0 (210,747) 0 (210,747) 0 (210,747) 0 (210,747) 0 (210,747) 0 (210,747) |

Working Capital Assets, (Current)

| 131: | Cash |
|----------|------------------------------|
| 132: | Interest Special Deposits |
| 133: | Dividend Special Deposits |
| 134: | Special Deposits |
| 135: | Working Funds |
| 136: | Temporary Cash Investments |
| | |
| 141: | Notes Receivable |
| 142: | Customer Accounts Receivable |
| 143: | Other Accounts Receivable |
| 144: | Prov. For Uncollec. Accounts |
| | |
| 151-174: | Materials and Supplies |
| | |
| 171-174: | Other Accrued Assets |
| | |
| 181-190: | Deferred Debits |
| | |
| | |

| | (a) | (b) | (c) |
|----|---------------------------------------------------|-------------|---------|
| | Current Assets | (2) | (0) |
| 1 | Cash and Cash Equivalents | 131 + 135 | 0 |
| 2 | Special Deposits | 134 | 68 |
| 3 | Accounts Receivables | 141+142 | 46,428 |
| 4 | Accounts Receivables - Related Party | 146 | 64,122 |
| 5 | Other Accounts Receivables | 143+171+172 | 7,040 |
| 6 | Uncollectibles | 144 | (3,398) |
| 7 | Accrued Utility Revenues | 173 | 17,943 |
| | Inventories | | |
| 8 | Fuel | 151+152 | 103,210 |
| 9 | Allowances - Current | 158.1 | 14,778 |
| 10 | Allowances Non-Current | 158.1 | 12,761 |
| 11 | Materials and Supplies | 154+156 | 133,946 |
| 12 | Prepayments | 165 | 80,484 |
| 13 | Other Current Assets | 174 | 33,666 |
| 14 | Total Current Assets | | 511,048 |
| | Regulatory Assets and Deferred Debits | | |
| 15 | Regulatory Assets | 182.3 + 189 | 91,775 |
| 16 | | 181 | 0 |
| 17 | Accum. Deferred Income Tax | 190 | 0 |
| 18 | Other Deferred Debits | 183 - 188 | 44,221 |
| 19 | Total Regulatory Assets and Deferred Debits | | 135,996 |
| 20 | Total Assets | | 647,044 |
| | | | |
| | <u>Liabilities</u> | | |
| | Accumulated Provisions | | |
| 21 | Accumulated Provisions Miscellaneous | 228+230 | 2,387 |
| 22 | Total Accumulated Provisions | | 2,387 |
| | Current and Accrued Liabilities | | |
| 23 | Short Term Debt (Corporate Borrowing Program) | 233 | 0 |
| 24 | Accounts Payable | 232 | 145,253 |
| 25 | Accounts Payable - Related Party | 234 | 46,996 |
| 26 | Customer Deposits | 235 | 0 |
| 27 | Taxes Accrued | 236 | 122,951 |
| 28 | Interest Accrued | 237 | 24,483 |
| 29 | Dividends Declared | 238 | 111 |
| 30 | Obligations Under Capital Leases - Current | 243 | 0 |
| 31 | S/T Energy Trading Contracts | 244+245 | 0 |
| 32 | Other Current and Accrued Liabilities | 241+242 | 77,926 |
| 33 | Total Current and Accrued Liabilities | | 417,720 |
| | Regulatory Liabilities and Deferred Credits | | |
| 34 | Regulatory Liabilities | 254+257 | 0 |
| 35 | Other Deferred Credits | 253 | 3,560 |
| 36 | Total Regulatory Liabilities and Deferred Credits | | 3,560 |
| 37 | Total Liabilities | | 423,667 |
| 38 | Total Assets | | 647,044 |
| 39 | Total Assets Less Total Liabilities | | 223,377 |
| | | | |

(2.) Liabilities

"Liabilities are...

- (a.) probable future sacrifices of economic benefits
- (b.) arising from present obligations of a particular entity to
- (c.) transfer assets or provide services to other entities in the future
- (d.) as a result of past transactions or events."

FASB Concepts Statement 6, Paragraph 35

(a.) probable future sacrifices of economic benefits

"A liability requires an entity to transfer assets, provide services, or otherwise expend assets to satisfy a responsibility to one or more other entities that it has incurred or that has been imposed on it."

(b.) arising from present obligations of a particular entity

"To have a liability, an entity must be obligated to sacrifice its assets in the future—that is, it must be bound by a legal, equitable, or constructive duty or responsibility to transfer assets or provide services to one or more other entities."

(c.) transfer assets or provide services to other entities in the future

"its [an entities] present responsibilities to transfer economic resources or provide services to other entities in the future". Two aspects of that definition are especially relevant to accounting for contingencies:

- i. first, that liabilities are present responsibilities and
- ii. second, that they are obligations to other entities."

Paragraph 58 of APB Statement No. 4

(d.) result of past transactions or events

Items become liabilities of an entity as the result of transactions or other events or circumstances that have already occurred. An entity has a liability only if it has a <u>present obligation</u> to transfer assets to another entity.

Liabilities, (Current)

| 228.1: | Provision for Property Insurance | |
|--------|-------------------------------------|---|
| 228.2: | Provision for Injuries and Damages | |
| 228.3: | Provision for Pensions and Benefits | |
| 228.4: | Miscellaneous Provisions | |
| | | |
| 231: | Notes Payable | |
| 232: | Accounts Payable | |
| 233: | Notes Payable, Associated Co.'s | , |
| 234: | Accounts Payable, Associated Co.'s | |
| 235: | Customer Deposits | |
| 236: | Taxes Accrued | |
| 237: | Interest Accrued | |
| | | |
| 241: | Tax Collections Payable | |
| 242: | Miscellaneous | |
| | | |

| | (a) | (b) | (c) |
|----|---------------------------------------------------|-------------|---------|
| | Current Assets | (5) | (0) |
| 1 | Cash and Cash Equivalents | 131 + 135 | 0 |
| 2 | Special Deposits | 134 | 68 |
| 3 | Accounts Receivables | 141+142 | 46,428 |
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| | Regulatory Assets and Deferred Debits | | |
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| | Regulatory Liabilities and Deferred Credits | | |
| 34 | Regulatory Liabilities | 254+257 | 0 |
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| 36 | Total Regulatory Liabilities and Deferred Credits | | 3,560 |
| 37 | Total Liabilities | | 423,667 |
| 38 | Total Assets | | 647,044 |
| 39 | Total Assets Less Total Liabilities | | 223,377 |

How Do We Determine Rate Base?

| | (a) | (b) | (c) | (d) | (e) |
|--------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|---------------------------------------------------------------|-------------------------------------------------------------------------------------------------|
| Line No. 1 | <u>Description</u> | <u>Source</u> | Total Company <u>Rate Base</u> | <u>Adjustment</u> | Total Staff Rate Base |
| 2 3 4 5 6 7 8 9 10 | Plant in Service Plant Held for Future Use Plant Acquisition Adjustments Construction Work in Progress Less: Retentions Nuclear Fuel Stock Spent Nuc Fuel Disp-Spc MI Req Total Utility Plant Adjust EPIS to Michigan Basis Asset Retirement Obligations | Exh. S-2, Sch. B2 Exh. S-2, Sch. B2 | 6,556,727 7,747 0 199,379 1,107 270,681 0 7,033,427 15,047 (210,747) | (115,713) 0 0 77,277 0 0 0 (38,436) 0 | 6,441,014 7,747 0 276,656 1,107 270,681 0 6,994,991 15,047 (210,747) |
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| 22 23 24 25 | Total Utility Property and Plant Less: Capital Lease Obligations | | 3,729,906 21,403 | (91,578) | 3,638,328 21,403 |
| 26 27 28 | Net Plant | | 3,708,503 | (91,578) | 3,616,925 |
| 29 30 31 | Less: Deferred Gain - Sale of Rockpol Less: Gains Foreign Currency Derivat | | 46,085 167 | 0 | 46,085 167 |
| 32 33 34 | Allowance for Working Capital Total Projected Period Rate Base | Exh. S-2, Sch. B4 | 3,885,628 | (408) | 222,969 3,793,642 |

Balance Sheet Presentation & Determination of Rate Base

Brian Welke, Auditor Michigan Public Service Commission Regulated Energy Division Revenue Requirements Section welkeb1@michigan.gov (517) 241-1722