

Overview of Accounting Systems

Generally Accepted Accounting Principles (GAAP)

- A series of rules for the treatment of financial matters
- Developed by the Financial Accounting Standards Board (FASB)
- FASB is a private organization that operates under the guidance of the federal Securities and Exchange Commission (SEC)

FASB Standards

- Defines the need for consistency as:

“Accounting standards are essential to the efficient functioning of the economy because decisions about the allocation of resources rely heavily on credible, concise, transparent and understandable financial information.”

- All published financial statements of regulated public utilities must conform to GAAP

Uniform System of Accounts

- Developed for all industries
- NARUC and FERC have worked together to develop USoA for electric utilities
- Each state formally adopts an approved method for utilities to comply with
- The goal is provide uniformity and consistency of financial information

Reliable Accounting Information

- Critical for proper review of a utility's operations in order to ensure the reasonableness of decisions
- By prescribing an acceptable accounting system, the Commission is able to obtain adequate information related to revenues, operating costs, plant investment and other information necessary for regulatory decisions

How does it help...

- Distinguishes between capital expenditures and operating costs
- Separates property being used to provide utility service from non-utility operations
- Makes it easier for the Commission to identify costs that are “fixed, known and measurable” as opposed to non-recurring one time expenses

Annual Reports

- In addition to data to set rates, an uniform accounting system also provides a basis for annual reporting of detailed financial information
- This routine reporting can provide the regulatory agency an important historical reference of utility costs that is helpful in the rate setting process

Differences Between GAAP and USoA

- Can occur in the rate setting process
- Usually because of the timing of cost recognition or a capital investment
- Financial treatment for tax purposes and regulatory treatment for items such as depreciation can be an example of this

System Details

- Typically accounts will be numbered and grouped by category
- Accounts should be titled and contain a brief description of the items to be included in it
- Balance Sheet accounts are generally listed first, followed by detail accounts for physical plant

System Details (cont.)

- Next would be all Income Statement accounts followed by detailed revenue and expense accounts

(REFER TO CHART OF ACCOUNTS
EXAMPLE)

- Particular attention in a rate case is given to revenue and expense accounts

Revenue

- In the detail accounts revenue is divided into individual sources such as “sales from electricity” and “other operating revenue”
- Electricity sales would be further divided to reflect revenues from each customer type
- This is helpful in determining how much each customer class is contributing to the total cost of service

Expenses

- In a similar way, expenses are divided into sub-categories such as: costs related to power production, transmission, distribution, customer service, taxes, general administrative etc
- This division helps Commission Staff as they analyze to what extent reported costs of service are legitimate and reasonable

Accuracy of Data

- All testimony presented during a rate case is done so under oath and it is unlawful to present evidence that is not true
- Witnesses are also asked questions by opposing parties in the case to help determine the accuracy of their testimony
- Free access to information in preparation for hearing by all parties helps to keep the process honest

Accuracy of Data (cont.)

- It is also common for financial data to have been audited prior to the hearing by the staff of other parties to the case, other governmental units or an independent entity such as an accounting or auditing firm
- The Commission relies on all of this evidence and verification in its decision making process