PSC Reporting Update

Let's talk about an opportunity.

WGFOA
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Goals for this session

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- Understand recent changes to the PSCW Uniform System of Accounts (USOA) including:
  - Water customer classifications
  - Water conservation accounting
  - Accounting for debt issuance costs
- Explore the link between the PSCW USOA and GAAP
- Discuss GAAP Guidance for regulated operations under GASB 62

Please ask questions throughout the presentation!

PSC USOA Changes

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The PSCW established the USOA in January 1959 applicable to municipal water and electric utilities in January 1960.

The USOA has been subject to periodic revision based on changes in technology, regulatory practice or accounting standards.

PSC USOA Changes

Changes to the USOA can be requested by:

> PSC Staff

> Utilities

> Industry organizations

> Consultants or other third parties

In either instance a formal docket must be opened before the commission to review and approve the changes.

PSCW USOA Changes

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Examples of changes:

- 1988 ï addition of account 391.1 for computers
- 2003 ï creation of segregated capital accounts for contributed capital assets
- 2008 ï comprehensive review to remove unused accounts, segregate water treatment equipment by type and create 906 customer service and information account
- 2012 and 2013 approved changesé .

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Water Customer Classifications

Residential

Multi-family residential

Commercial

Industrial

Public Authority

Irrigation

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Multi-family residential

- > Primary purpose of property is residential
- > One meter used for three or more units

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Irrigation

> Applies only when the PSCW has authorized or established an irrigation rate tariff

Irrigation Class includes customers who use water for landscape irrigation or other outdoor purposes. Any residential, commercial, industrial, or public authority customer who has a secondary meter installed on a single lateral for the purpose of measuring water that is not discharged to the sanitary sewer system is an irrigation customer. The charges for this class apply to water consumption measured by either a primary meter or a secondary meter used to measure water that is not discharged to the sanitary sewer system.

For the purposes of this schedule, irrigation includes the use of water to sustain crops, lawns, or landscapes on any residential, commercial, industrial, or public authority property, including water used for irrigating athletic fields, parks, and golf courses.

*The service charge for irrigation meters that are installed as a secondary meter on a single lateral for the purpose of measuring water not discharged to the sanitary sewer shall be calculated at one-half of the amount listed for that meter size. Irrigation meters that are installed as the primary meter on a single lateral shall be charged the full service charge.

<u>Residential Customers</u>
For all water used each quarter or month - $3.35 per 100 cubic feet

<u>Nonresidential Customers</u>
First 100,000 cubic feet used each quarter or
33,300 cubic feet used each month - $2.89 per 100 cubic feet
Next 400,000 cubic feet used each quarter or
133,300 cubic feet used each month - $2.70 per 100 cubic feet
Over 500,000 cubic feet used each quarter or
166,600 cubic feet used each month - $2.50 per 100 cubic feet

<u>Irrigation Customers</u>
For all water used each quarter or month - $5.20 per 100 cubic feet

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Implementation:

- Required by January 1, 2014 (in 2014 PSC report)
- Process to identify customers
- Billing system modifications ï to track customers, volume and revenues separately for reporting
- Ledger modifications ï to track revenues
- Review of changes

PSCW USOA Changes

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Customer Classifications ï Test

1) Eight unit apartment with one meter
2) Four unit apartment with four meters
3) Bar with upstairs apartment on one meter
4) One meter serving eight unit apartment building that also houses the leasing office for the landlord
5) Business with a second meter for outside water usage

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Conservation Program Accounting

- Applies only if the PSCW has authorized a program with related rate recovery
- Costs incurred charged to 186, *Miscellaneous Deferred Debits*
- Annual authorized spending credited to 253 *Other Deferred Credits* and debited 906 *Customer Service & Informational Expenses*

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Conservation Program Accounting ï Example

PSCW rate case authorized toilet rebate program of $25,000 per year. During 2013 the utility actually provides rebates of $20,000.

186 *Miscellaneous Deferred Debits – Conservation*	*$20,000*	
131 *Cash*		*$20,000*
906 *Customer Service & Informational Expenses*	*$25,000*	
253 *Other Deferred Credits – Conservation*		*$25,000*

The net balance of accounts 186 and 253 should be reported as the conservation program deferred debit (overspending) or deferred credit (underspending).

PSCW USOA Changes

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Debt Issuance Costs

What are debt issuance costs?

Less:	Costs of Issuance		
	Ehlers (Financial Advisor)	34,436.00	
	Quarles & Brady LLP (Bond Counsel)	12,000.00	
	Associated Trust Company, NA (Paying Agent)	325.00	
	Associated Trust Company, NA (Escrow Agent)	900.00	
	Barthe & Wahrman (Escrow Verification)	2,500.00	
	Total Costs of Issuance		$50,161.00

Historical treatment ï defer in account 181 and amortize over the life of the related bonds; amortization booked to account 428 (non-operating)

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Debt Issuance Costs

Why change?

Prospective treatment ï issuance costs will be recognized as a non-operating expense in the year incurred

Effective for 2013 ï any debt issuance costs current in account 181 will need to be written off in 2013

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Debt Issuance Costs Clarification

This changes applies only to the debt issuance costs.

Discounts and premiums on bonds issued continued to be deferred and amortized over the life of the bonds.

The loss on advance refunding of bonds continues to be deferred and amortized over the life of the old or new bonds, whichever is shorter.

PSC Guidance vs. GAAP

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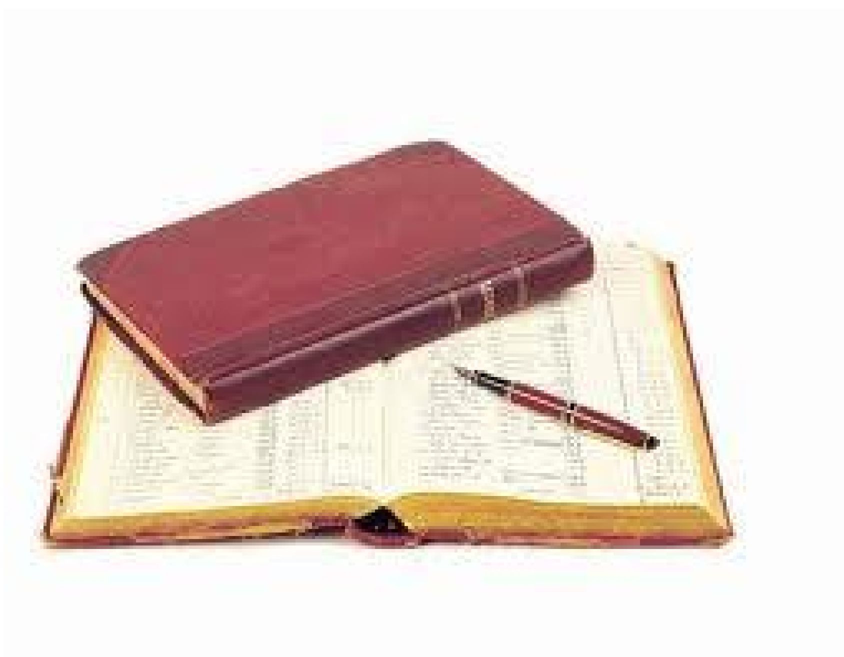
How does the PSCW USOA impact your audited financial statements?



Vs.

PSC Guidance vs. GAAP

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- GASB rules in all cases
- PSC provides regulatory guidance for reporting but is not a source for GAAP
- FASB contributes significantly since GASB standards adopted pre-existing FASB standards as GAAP and incorporated additional guidance with GASB No. 62

Common differences between PSC and GAAP

- Depreciation on contributed assets
- Payment in lieu of taxes
- Capital contributions from the City or a TIF fund
- Normalization of non-routine expenses

GASB No. 62 Accounting for Regulated Operations

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GASB No. 62 incorporated the guidance provided in FASB No. 71 allowing regulated operations to recognize certain revenues and expenses based on the rate recovery timing rather than when they would be recognized under traditional GAAP accounting.

GASB No. 62 Accounting for Regulated Operations

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To qualify must meet all of the following:

> Be reported as a business-type activity
> Rates for regulated service are established by or subject to approval by regulator
> Rates are designed to recover the cost of providing the service
> It is reasonable to assume these cost based rates can be charged and collected

Application is an election – not a requirement, however if election is made it must be applied consistently to all material items.

GASB No. 62 Accounting for Regulated Operations

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Costs that would be expensed, but future recovery is probable, can be deferred as a regulatory asset and amortized over time.

Example: Major maintenance overhaul of a generation facility is recovered over a 10 year period in rates.

GASB No. 62 Accounting for Regulated Operations

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Revenues received in one period required to offset charges to customers over future periods and thus would be recognized as a liability initially and as revenues when applied.

Example: As the result of a lawsuit the utility receives a large settlement which will be used to offset operating costs and lower customer bills over the next two years.

GASB No. 62 Accounting for Regulated Operations

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Capital costs are not allowed to be recovered through rates and thus a loss should be recognized in the current period for the amount of unrecoverable costs.

Example: Assets contributed or financed by customers or developers are not recovered through rates and thus would be written off and a loss recognized.

Note: PSCW would still require these assets to be tracked, depreciated and reported.

Is GASB 62 election right for you?

- Do you meet the requirements?
- Do you have significant revenues or expenses that are recovered through rates on a different time frame than when recognized under GAAP?
- Does application result in additional differences between PSCW and GAAP reporting?

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Thank you!

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