



# HOW TO CLASSIFY EXPENSES PER THE NARUC UNIFORM SYSTEM OF ACCOUNTS (USOA)

December 13, 2019



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# Terms and Definitions

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- NARUC – National Association of Regulatory Utility Commissioners
- USoA – Uniform System of Accounts
- Normalized – The act of taking an expense and making it what it normally should be (typically on average).
- Capitalized – Costs to repair or fix an asset that extends an asset’s useful life and must be depreciated instead of expensed.
- Materiality – a situation where the financial information of a company is considered to be material from the point of view of the preparation of the financial statements



# What is a USoA?

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- Established by NARUC to guide accounting along with Regulatory Commission Orders.
- Prescribes accounting classifications and instructions to achieve uniform accounting records.
- Maintain consistent application among companies.
- The basis to be used in the financial reports.



# What is a USoA?

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- Having accurate and understandable accounting is the key to assuring accountability, comparability, and rate setting fairness.
- Every regulatory decision suggests an underlying accounting treatment.
- Requiring the use of a specified USoA provides assurance that regulators, and other decision makers, have the information needed to set fair and reasonable rates
- A “Uniform System of Accounts” is an accounting model that regulated utilities are required to use.



# What is a USoA?

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- The USoA is a tool. Like most tools, the USoA helps facilitate the planning and decision making necessary to assure that a public service corporation can continue to provide safe and reliable service to customers at a fair and reasonable cost.
- Along with well-designed set of internal controls, application of generally accepted accounting principles, and reliance upon independent third party audits; the use of a USoA makes rate regulation possible.



# What is a USoA?

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- Efficient regulatory decision making is only possible in an environment where large amounts of financial data can be analyzed and understood quickly. Without a significant level of uniformity in the structure and content behind this financial data – no timely decision making would be possible.
- Ratemaking is a safeguarding responsibility, and utilization of a USoA sponsors and supports transparency to the benefit of all stakeholders. It should be easy to use and easy to understand.



# USoA Objectives

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- **Primary Objective:** The primary objective of USoA shall be to guarantee that the Companies' Accounting Information Systems can easily generate all the reports required by the regulatory authority, based on information extracted from the General Ledger and Subsidiary Ledgers.
- **Secondary Objectives:**
  - a) Conform to financial best practices, while being consistent with the Accounting Standards of the Country and the Accountancy Law.
  - b) Support a variety of internal and external reporting requirements for different users of accounting and financial information.
  - c) Provide a platform that can change as requirements change.
  - d) Integrate budget, financial, tax and regulatory reporting.
  - e) Provide flexibility for future organization change, including reengineering and reorganization.
  - f) Be easy to use.



# What does a USoA offer?

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USoA generated financial data provides:

1. Input for a variety of internal and external reporting requirements;
2. A platform to support rate changes deemed to be necessary;
3. Support for integrated financial and capital investment budgeting as well as for financial variance reporting; and,
4. Reliable information for making peer comparison.



# What does a USoA look like?

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- Definitions
- Accounting Instructions (General & Plant)
- Listing of Accounts:
  - Account Numbers
  - Account Titles
  - Definition of the transactions to be recorded in the account
  - Instructions on recording the transaction in the account



# Commonly Used Accounts

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- 601 – Salaries and Wages
- 610 – Purchased Water
- 615 – Purchased Power
- 620 – Materials and Supplies
- 631 – 636 Contractual Services
- 650 – Transportation Expense
- 666 – Regulatory Commission Expense



# 601 - Salaries and Wages

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- Compensation for employees work
  - Hourly pay
  - Salary pay
  - Temporary employee pay.
- Should not include (there are separate codes for the following)
  - Benefits
  - Pensions
  - Officer pay.



# 610 - Purchased Water

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- Water purchased with the intent for resale.
- NOT water purchased for consumption by the entity.
- Information that must be obtained from the purchase of water include:
  - Where the point of delivery was
  - The quantity purchased
  - Any basis of charges
  - Total cost of water purchased.



# 615 - Purchased Power

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- All electrical power purchased by an entity.
- Power is consumed by the entity (i.e. use for powering water pumps).
- Common power providers
  - SRP
  - APS
  - TEP.



# 620 - Materials and Supplies

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- Any materials and supplies purchased for use in the operation and maintenance of the water system.
- Can use sub accounts to classify different part of a system.
- Can account for office materials and supplies separately.
- As will be discussed in the session on rate base, inventory of supplies is included in rate base.



# Contractual Services

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- **631 – Engineering**
  - Costs associated with the use of outside (non-employee) Engineering work on water system.
- **632 – Accounting**
  - Costs associated with the use of outside (non-employee) external accounting work for the company.
- **633 – Legal**
  - Costs associated with the use of external legal council for representation on behalf of the Company.

\* Any costs associated with any of these categories, but were in support of a rate case should be coded to 666.



# Contractual Services

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- **634 – Management Fees**
  - Any costs of a third party that manages or runs any part, or the whole, of the water company.
- **635 – Water Testing**
  - All costs associated with the Company's water testing.
- **636 – Other**
  - All other costs that would be classified as outside (or 3<sup>rd</sup> party) work that does not fit into any of these other categories (i.e. independent contractor performs meter reading).

\* Any costs associated with any of these categories, but were in support of a rate case should be coded to 666.



# 650 - Transportation Expense

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- All costs associated with the use of vehicles or other modes of transportation to perform official business for the water company.
- Does not include the costs of vehicle purchases.
- Does not include the use of company vehicles for personal use.
- Common expenses include
  - Fuel & routine maintenance
  - Mileage.
- Cannot expense fuel & routine maintenance AND mileage, must be actual costs OR maintenance.
- Any repairs that improve the useful life of the vehicle must be capitalized.



# 666 - Regulatory Commission Expense

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- Rate case costs incurred for development, submission, litigation, and finalizing of a rate case.
- “Normalized” over a specific time period (usually between 3 to 5 years depending on filing timing).
- May be treated as a surcharge where the company will collect the actual rate case expenses.
- Forgone if a decision in a new rate case is made before the recovery period is completed.
- Costs must be reasonable and can include (but not limited to)
  - Time spend on creation of rate case
  - 3<sup>rd</sup> party costs that help create or work on the rate case
  - Any other costs associated with the rate case.



# Materiality

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As set forth in Decision No. 75743, the materiality for expenses for:

- Class C utilities is \$400 for data requests and \$2,000 for adjustments.
- Class D utilities is \$250 for data requests and \$1,000 for adjustments.
- Class E utilities is \$250 for data requests and adjustments.





# THANK YOU

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