



SC Office of Regulatory Staff Audit Department

RATE APPLICATION PREPARATION & ASSET MANAGEMENT

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Application for a Rate Increase

According to the South Carolina Code of Regulations, Chapter 103 Section 512.4 and 712.4, when a utility makes an application for an increase in existing rates and charges, such application shall not be accepted for filing unless it contains the following information:



AUDIT RATE APPLICATION REQUIREMENTS



16 Requirements

- 1) A statement of reason justifying the need for the proposed rate adjustments;
- 2) Current income and expense statement for the preceding twelve months;
 - Same period as the test year
 - Must tie to the company's books and records
- 3) Proposed rate schedule;

(4) Test Year Proposed to be used;

- Must be a recent, historical, consecutive 12-month period
 - Test year should be no older than one (1) year
 - Calendar or Fiscal Year
 - Must have the appropriate records to match the test year
 - Should be a good basis for setting rates and indicative of current operations
 - Test year may be updated for known and measurable changes
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(5) Pro-forma income and expense statement using proposed rates applied to proposed test year;

- Provides a snapshot of present and proposed operations
- Usually consists of 5 columns; per book + adjustments = as adjusted + proposed increase = after adjustments and proposed increase
- Per Book amounts supported by General Ledger
 - May require mapping of expenses to application
- Sample Rate Case on ORS Website under Water/Wastewater/Forms and Resources

AUDIT RATE APPLICATION REQUIREMENTS



- 6) Balance sheet;
 - Same period as the test year
- 7) Depreciation schedule by categories of plant or average service lives;
 - List of assets from continuing property records for the test year
 - Show service lives and depreciation rates
 - Show depreciation expense and accumulated depreciation
 - Depreciation Expense on this schedule should match per book amounts

AUDIT RATE APPLICATION REQUIREMENTS

- 8) Number of present and expected customers in the following twelve months;
 - 9) Cost justifications for proposed rates and charges, including tap fees, with attached schedules depicting labor costs, materials costs, and miscellaneous costs;
 - 10) Filing or updating of performance bond in accordance with 103-512.3 and 103-712.3 of this rule;
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AUDIT RATE APPLICATION REQUIREMENTS



- 11) Current or updated service area map;
- 12) **Statement of total plant investment;**
- 13) Most recent letter of approval from the Department of Health and Environmental Control;
- 14) Customer bill form;
- 15) Annual Report on file and evidence of last period Gross Receipts paid; and
- 16) Any other pertinent or relevant information determined necessary by the Commission.

REQUIREMENTS FOR AUDIT



➤ ADEQUATE RECORDS

General Ledger, Trial Balance, etc.



➤ VERIFICATION OF APPLICATION

Supported by per book numbers

➤ PROPER DOCUMENTATION

Supporting invoices, calculations, documentation

UNIFORM SYSTEM OF ACCOUNTS



- Required pursuant to 26 SC Code Regs. 103-517 and 103-719
- Uniform System of Accounts (USOA) developed by National Association of Regulatory Utility Commissioners (NARUC)
- Class A,B, & C Water and Wastewater Utilities
 - Class A: Revenues of \$1,000,000 and more
 - Class B: Revenues of \$200,000 to \$999,999, and
 - Class C: Revenues less than \$200,000
- Includes Index of Accounts, Definitions, Accounting Instructions, and Descriptions of Balance Sheet, Utility Plant, Income, Retained Earnings, Revenue, Operation and Maintenance Accounts
- Obtain professional help if needed
- Same accounts as Water/Wastewater Annual Report Form
- Order USOA from www.naruc.org

What is Asset Management?

- Managing infrastructure capital assets, to minimize the total cost of owning and operating them, while delivering the desired service levels.
- Providing adequate service, while utilizing assets efficiently and effectively, at the lowest life-cycle cost.
- The lowest life-cycle cost refers to rehabilitating, repairing or replacing an asset at the lowest possible cost.
- Need a written plan to be reviewed annually

BENEFITS OF GOOD ASSET MANAGEMENT PLAN

- Prolonged asset life
- Proper Depreciation Expense/Cost Recovery
- Setting rates on accurate plant in service data
- Meeting service expectations and regulatory requirements
- Reducing operating costs and capital expenditures



BEST PRACTICES FOR ASSET MANAGEMENT

- ADEQUATE CONTINUING PROPERTY RECORDS



- CAPITALIZE ITEMS PROPERLY
service life is more than 1 year

- SECURE PROPER DOCUMENTATION AND TITLE TO ASSETS

- PROPER RETIREMENT OF ASSETS

ASSET MANAGEMENT CHECK UP

- ✓ Do you have a written asset management plan?
- ✓ Do you review the plan at least once a year?
- ✓ Do you know the location and have title to all of your assets?
- ✓ Do you have a maintenance schedule to maximize efficiency and plant life-cycle?
- ✓ Do you know the cost of your capital assets?
- ✓ Do you properly capitalize your expenditures?
- ✓ Do you retire assets appropriately?



Questions?

- Rate Case Applications
- Asset Management

AUDIT ASSISTANCE FOR WATER/WASTEWATER



- Jay Jashinsky, Director of Auditing,
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Resources

- ORS - www.regulatorystaff.sc.gov/
- PSC - www.psc.sc.gov/
 - Rules and Regulations
www.psc.sc.gov/laws/regulations.asp
- NARUC – www.naruc.org (to order a uniform system of accounts)
- http://water.epa.gov/infrastructure/sustain/asset_management.cfm