

Annual Reports



Annual Reports

An Annual Report is a document that details the financial and operational data of the utility.

- Chapter 367.121, F.S., *Powers of commission*, authorizes the PSC to require an Annual Report and to specify a uniform system of accounts.
- The PSC requires the use of the National Association of Regulatory Utility Commissioners (NARUC) Uniform System of Accounts (USOA), as specified in Rule 25-30.115, F.A.C., *Uniform System of Accounts for Water and Wastewater Utilities*.
- Without current Annual Reports on file, a utility cannot have a price index or pass through rate increase.



The Main Rules Governing Annual Reports

Rule 25-30.110, F.A.C.

Rule 25-30.110, F.A.C., *Records and Reports; Annual Reports*, addresses the following:

- Books & records – NARUC USOA
- Location of books and records
- Reconciliation of books and records with the Annual Report
- Filing extensions
- Determination of Class A, B, or C report



The Main Rules Governing Annual Reports

Rule 25-30.110, F.A.C. (cont.)

Rule 25-30.110, F.A.C., *Records and Reports; Annual Reports*, addresses the following (cont.):

- Certification of the Annual Report
- Penalty for non-compliance
- Delinquent reports
- Incomplete reports
- Incorrect filings
- Insufficient copies (1 original, 2 copies; Fine: \$1 per page)



Who Has to File an Annual Report?

- Rule 25-30.110(3), F.A.C., *Records and Reports; Annual Reports*, addresses the obligation of a utility under the Commission's jurisdiction to file an Annual Report for any given year on or before December 31 of that year whether or not the utility has applied for or been issued a certificate.
- If a utility is sold during the year, the buyer must make sure that the Annual Report data is completed for the whole year, including the portion of the year under prior ownership.



Preservation of Records

- Rule 25-30.115, F.A.C., *Uniform System of Accounts for Water and Wastewater Utilities*, requires compliance with the NARUC USOA. The cost for by utility class and service are listed below.

| | Water | Wastewater |
|---------|-------|------------|
| Class A | \$28 | \$27 |
| Class B | \$23 | \$25 |
| Class C | \$18 | \$19 |

- Further, *Regulations to Govern the Preservation of Records of Electric, Gas and Water Utilities* is issued by NARUC, last revised in 2007 at a cost of \$20.



NARUC Address

To obtain a copy of the *Uniform System of Accounts for Water and Wastewater Utilities* and/or *Regulations to Govern the Preservation of Records of Electric, Gas and Water Utilities*, contact NARUC at:

1101 Vermont Ave, NW, Suite 200
Washington, DC 20004

Telephone: (202) 898-2200

Facsimile: (202) 898-2213

Website: naruc.org



Location of Books and Records

- The utility must maintain its books inside Florida, unless it is authorized by the PSC to locate its books outside Florida.
- If the utility's books are located out of state, and cannot be made available in Florida, the utility must reimburse the travel costs of Commission representatives.



Other Information Required

The following shall be furnished to the Commission as required for determining rates or judging utility practices, and shall be consistent with and reconcilable with the Annual Report:

- Any required tests
- Any information on utility facilities or operations (including Minimum Filing Requirements)



Distribution of Annual Report Forms

- The Commission mails a copy of a blank Annual Report to all jurisdictional water and wastewater utilities by January 15.
- The utility should contact the Division of Accounting and Finance if it does not receive the form by early February or if the utility receives the wrong class report.
- Blank Annual Report forms are available through the PSC website:
<http://www.floridapsc.com/utilities/waterwastewater/annualreport/index.aspx>.
- Failure to receive the form or receiving the wrong class report does not excuse the utility from timely filing the appropriate report.



Due Dates and Extensions

- The original and two copies are due no later than March 31 for the preceding year.
- One automatic 30 day extension will be granted upon written request.
- A request for a longer extension shall be accompanied by a statement of good cause and shall specify the date by which the report shall be filed.



Penalties, Interest & Fines

- Delinquent Reports (per Rule 25-30.110, F.A.C., *Records and Reports; Annual Reports*)
 - \$25.00 per day for Class A
 - \$13.50 per day for Class B
 - \$3.00 per day for Class C
 - This is levied and enforced.
- Insufficient Copies
 - \$1 per missing page per copy.



Penalties, Interest & Fines (cont.)

- Failure to File
 - Commission may impose penalties depending on flagrant disregard or repeated violations.
- Interest
 - Failure to pay penalty shall be subject to interest.



Class A/B Annual Reports

The executive summary section of the Annual Report only applies to Class A and B utilities, and it contains the following information:

- Certification of Annual Report
- General information
- Directory of personnel
- Company profile
- Parent/affiliate organization chart
- Compensation of officers & directors



Class A/B Annual Reports (cont.)

The executive summary section of the Annual Report only applies to Class A and B utilities, and it contains the following information (cont.):

- Business contracts with officers, directors & affiliates
- Affiliation of officers & directors
- Businesses that result from providing water & wastewater services
- Business transactions with related parties



Financial Section

- Comparative Balance Sheet
 - $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$.
- Income Statement
 - Net Operating Income is derived from Operating Revenues less Operating Expenses.



Cost of Capital Section

- The methodology of cost of capital must be calculated using the same methodology used in the last rate proceeding using current Annual Report year-end amounts and cost rates.
- The mid-point of the last authorized Commission approved return on equity (ROE) should be used. The current leverage formula should be used if an ROE has not been established.
- The Commission-approved allowance for funds used during construction (AFUDC) rate should be used.



Water & Wastewater Operating Sections

A separate set of operating schedules must be included for each water & wastewater system.



Year-End Rate Base Section

Rate base includes the following components:

- Plant in service and land
- Accumulated depreciation
- Contribution in aid of construction (CIAC)
- Accumulated amortization of CIAC
- Construction work in progress
- Acquisition adjustment
- Working capital



Plant In Service

Plant in service does not include the following:

- Plant leased to others
- Property held for future use
- Utility plant purchased or sold
- Construction work in progress (CWIP)
- Completed construction – but not classified



Non-Used & Useful Plant

Non-used and useful plant should be estimated based on the methodology used in the utility's last rate proceeding and excluded from rate base.



Contribution in Aid of Construction (CIAC)

CIAC is defined as any amount or value of money, services, or property received by a utility, from any person or governmental agency, any portion of which is provided at no cost to the utility, which represents an addition or transfer to the capital of the utility, and which is utilized to offset the acquisition, improvement, or construction costs of the utility's property, facilities, or equipment used to provide utility services to the public.



CIAC (cont.)

Pursuant to Rule 25-30.515, F.A.C., *Definitions*, CIAC includes the following:

- Plant capacity charges - a charge made by the utility for the purpose of covering all or part of the utility's capital costs in construction or expansion of treatment facilities
- Main extension charges - a charge made by the utility for the purpose of covering all or part of the utility's capital costs in extending its off-site water or wastewater facilities to provide service to specified property. The charge is determined on the "hydraulic share" basis or other acceptable method reasonably related to the cost of providing the service



CIAC (cont.)

Pursuant to Rule 25-30.515, F.A.C., *Definitions*, CIAC includes the following (cont.):

- Customer connection charges - any payment made to the utility for the cost of installing a connection from the utility's water or wastewater lines, including but not limited to the cost of piping and the meter installation fee
- Meter installation charges - the amount authorized by the Commission which is designed to recover the cost of installing the water measuring device at the point of delivery including materials and labor required



CIAC (cont.)

- These charges, generically called Service Availability Charges, if approved in the utility's tariff, are paid by each new customer connecting to the utility's system.
- The accumulated balance of CIAC is used to offset the amount of plant included in rate base.
- The intended use of CIAC funds is not to pay for day-to-day operations, but rather to fund improvements and expansions.
- The PSC's maximum guideline is to set service availability charges such that no more than 75 percent of gross plant in service is contributed.
- "Over-contribution" may result in a negative rate base.



Amortization of CIAC

- If CIAC were not amortized, the utility could eventually end up with a negative rate base as the plant in service becomes fully depreciated.
- Net plant would get smaller and smaller, while CIAC, as an offsetting item, would stay the same size.
- Just as the gross CIAC balance offsets gross plant in service, the accumulated amortization of CIAC offsets accumulated depreciation.
- Each year's amortization expense offsets each year's depreciation expense.



Amortization of CIAC (cont.)

- The depreciation rate set forth in Rule 25-30.140, F.A.C., *Depreciation* should be applied to the contributions directly related to a particular asset.
- For all other CIAC, the composite depreciation rate should be used.



Acquisition Adjustments

- An acquisition adjustment results when the purchase price differs from the net book value of the assets at the time of the acquisition.
- A positive acquisition is the result of the purchase price being greater than the net book value of the assets.
- A negative acquisition is the result of the purchase price being less than the net book value of the assets.
- Only those acquisition adjustments that have been approved by the Commission should be included in rate base.
- Unapproved acquisition adjustments are reflected on the utility's balance sheet but not rate base.



Working Capital

- Class A utilities must use the balance sheet method which basically is current assets less current liabilities.
- Class B and C utilities must use the formula method, which is calculated as one-eighth of a utility's operation & maintenance expenses.



Operating Revenue

Operating revenue includes the following:

- Revenue collected directly from service rates
- Guaranteed revenue
- Fire protection revenue
- Irrigation revenue
- Resale revenue
- Miscellaneous service charges



Operating Revenue Does Not Include:

Revenue does not include the following:

- Revenue from related companies
- Loans or cash advances
- AFPI (“below the line”) revenue
- Contributions in aid of construction (service availability charges)
 - Tap-in or main extension charges
 - Plant or system capacity charges
 - Meter installation charges



NARUC Account Definitions

- **Contractual Services – Billing:** These accounts shall include the costs associated with billing customers for water/wastewater service if such work is not performed by employees of the utility.
- **Contractual Services – Professional:** These accounts shall include the cost of accounting, legal, and engineering if such work is not performed by employees of the utility.
- **Contractual Services – Testing:** These accounts shall include the costs paid to outside laboratories for testing.



NARUC Account Definitions (cont.)

Contractual Services – Other: These accounts shall include the cost of operation and maintenance work not performed by utility employees. These accounts shall also include the cost of management and data processing if such work is not performed by employees of the utility.



Composite Depreciation Rate

To derive the composite depreciation rate, divide the yearly depreciation expense by the gross plant in service (less land).

- Example:
 - $\$35,148/\$1,252,156 = .028 = 2.8$ percent
 - Composite depreciation rate = 2.8 percent
 - Apply 2.8 percent to the CIAC balance at the first of the year, and add a half year of amortization for the year's additions.

OR

- Use 3.1 percent in lieu of calculating a composite rate. Apply it in the same manner.



Certification of Annual Report

Chief Executive Officer & Chief Financial Officer shall certify the following in writing:

- Compliance with NARUC USOA
- Compliance with rules & Commission orders
- Non-compliance with financial reporting requirements from regulatory agencies
- Financial statements fairly present financial condition and operations, and the Annual Report is true, correct & complete



Important Points

- All relevant utility expense should be recorded.
- Expense should be recorded even if the expense is not paid. (example – owner’s salary.)
- The accrual accounting method should be used – not a cash basis.



Common Errors

Common errors on Annual Reports include:

- Incomplete related party information.
- Cost of capital calculation errors.
- Information that does not match books and records.
- Support schedules that do not tie to summary schedules.
- Incorrect depreciation rates used or reported.



Annual Report Corrections

- If Annual Report corrections are required by the Commission, the utility will be notified to send corrected copies by a certain date.
- The penalty for late corrections is \$3 per day.

