“Joel is a fantastic speaker & brings a lot of knowledge to the table. Found he often answered all my questions without asking.” Richard Wathy, Team Lead Financial Reporting, Union Gas.

“Joel Berk is a known and valued commodity at our company.” One of the seminar’s strong points is “the big picture context which gives the mechanics and definitions meaning. I thought all the info was great.” Stephen D. Nigloschy, Vice President Finance, National Grid.

“This is an excellent seminar that provides a solid foundation of knowledge for those unfamiliar with utility accounting and buttresses existing knowledge for those who work in utility ratemaking and accounting on a daily basis.” Wes Owens, Manager Regulatory Affairs, San Jose Water.

“Excellent communications and teaching skills. Working for a utility almost 20 years, I wish I had this class at the start of my career.” Roberta Cleveland, Financial Analyst, Idaho Power.

“This course brought great clarity. Especially in terms of capitalization and tax treatment. Joel is a great presenter and leverages technology to deliver the material.” Jeremy McMillan, SCE.

“Excellent resource for any employee. Should be mandatory for any new employees or those who manage Projects and Budgets.” William Rochford, Section Manager IT Tech Operations, National Grid.

“Joel is the only accounting instructor I know who can make accounting interesting and fun for an engineer like me. Enjoyed the course immensely.” James J. Bonner, Jr., Manager, National Grid.
UTILITY FINANCE & ACCOUNTING SEMINARS

FOR NON-FINANCIAL PROFESSIONALS


UTILITY FINANCE & ACCOUNTING FOR NONFINANCIAL PROFESSIONALS

A comprehensive, 3 day, group-live seminar for nonfinancial individuals working with the utility industry or financial individuals who are new to the utility industry and who need to understand a) how the utility runs as a business b) the unique language of utility ratemaking, finance & accounting, c) the key aspects of the utility’s four sets of books d) how to understand & “read” a utility’s financial statements e) learn where the numbers come from on the balance sheet & income statement and f) how the regulators set rates & identify various features of ratemaking.

This seminar will enable you to understand:
1) accrual accounting 2) tax book temporary differences 3) present value analysis 4) basic financial statement analysis 5) basic rate of return regulation 6) incremental analysis for making capital budgeting decision.

Program level: Basic. Recommended CPE Credits: 22.

DAY ONE: 8:00-4:00

Introduction
Basic Accounting Concepts
Balance Sheet
Income Statement

Learning Objective: Understanding of where the numbers come from that we use at the utility to run the company (managerial accounting), prepare the financial statements, set rates and prepare the company’s tax return. This leads to gaining the insight needed to use accounting information to create shareholder value.

We use a spreadsheet approach in making accounting entries for a simple utility company which avoids the use of debts and credits. This is not a simplified version of accounting but a conceptual version perfectly suited to users of accounting information as contrasted with the debit and credit approach needed for preparers of accounting information (i.e., accountants). We develop the Income Statement and Balance Sheet and discuss the significance of these. We compare our simple example with the real financial statements of the company. While doing our transactions analysis (i.e., preparing the spreadsheet) we discuss general accounting concepts like the cost basis of accounting, accrual accounting, accounting methods and accounting estimates. Material which may be covered in more depth later such as the Statement of Cash Flows and Tax Book Temporary Differences is introduced.

Financial Statement Analysis
Return on Equity
Total Shareholder Return

Learning Objective: Mechanics of the calculations, relating to the accounting numbers used and the relation to the allowed ROE and Shareholder Value.

We calculate the ratios indicated above from the financials and market price data for the sample utility while discussing the significance of each measure.

The Utility’s Four “Sets of Books”

Learning Objectives: Understanding of why we end up with different accounting methods and different accounting estimates for the four major uses of accounting.

GAAP, Tax, Rates, Managerial
Rate Case Concepts
Cost of Service Regulation
Rate Base, Operating Expenses, Allowed Return

Above-the-line versus Below-the-line Expenses

We discuss the conflicting goals of the groups who make accounting rules for the four major places where we use accounting data. This leads to a discussion of tax-book temporary differences as well as regulatory assets and liabilities. Most of the time in this session is spent on how ratemaking uses the accounting methods and estimates. We will look at the details of a rate case revenue requirement development.

Role Playing Exercise -- Rate Case

Learning Objective: See how different parties to the rate case are able to effectively argue their positions such that the utility can never be sure their position will prevail.

Interveners -- Consumer Group, Industrial Ratepayers
Rate Case Steps

Above-the-Line and Below-the-Line Issues

This is a role playing exercise. Groups of 4-6 people play the roles of Consumer Advocate, CEO of the Utility, Commission Staff Advisor, Large Industrial Ratepayer, CFO the Utility and the Commissioners. Each group presents arguments on why certain costs should or should not be included in rates.

Ethics Considerations

Learning Objective: Get insight through discussion of unethical behavior at some utility companies.

COCKTAILS 4:30 - 5:30

DAY TWO: 8:00-4:00

LEARNING OBJECTIVES:

-Understand accrual accounting
-“Read” an annual report of the company
-Calculate key financial ratios
-See the link between finance & accounting & the strategic plans of the company
-Understand how a utility makes money
-Analyze whether shareholder value is being created as opposed to net income
-Do a capital budgeting analysis (engineering economics)

Learning Objective: To provide a working understanding of finance & accounting as applied to the regulated utility companies. Upon completion of the seminar (group-live) participants will be able to:

-See the link between finance & accounting & the strategic plans of the company

Learning Objective: To see the many different regulatory mechanisms which are possible and the implications of alternative regulatory frameworks.

Adjustment Clauses and Cost Recovery Rates
Rate Freezes
Decoupling
Formula Ratemaking

We discuss the many different ways of modifying the traditional rate of return regulatory framework along with a discussion of what each accomplishes for the utility.

Present Value Analysis and Exercise

Learning Objective: Be able to calculate the present value of a series of cash flows.

We begin with compound interest and risk and return. Then we turn around the compound interest situation to see how it becomes present value analysis. A present value problem follows.

Growth Considerations

Learning Objective: Learn how to make decisions in order to increase the stock price.

-Theory
-Measurement Techniques
-Risk Measurement

Learning Objective: Understanding the accounting for tax-book differences and normalization versus flow through for ratemaking.

Temporary Differences

We discuss the use of normalization or flow through for ratemaking. We look at the utility’s deferred tax balances, where they came from and the ratemaking implications. An illustration of the flow through for regulatory asset is included.

Cost of Capital

Learning Objective: To be able to calculate the two different weighted average cost of capital figures for the company, one which is used for ratemaking and the other for capital budgeting.

Cost of Debt and Preferred
Cost of Equity

Comparable Companies
Weighted Average Cost of Capital

After introductory material we will determine the cost of debt, preferred and equity for a utility. Two methods of determining the cost of equity will be used -- the DCF method and the risk premium approach. Testimony from rate cases will be reviewed.

Capital Project Analysis Review Case

Learning Objective: Learn to do a present value analysis using incremental cash flows as impacted by the four sets of books.

Identify Incremental Cash Flows as Opposed to Accrual Figures
Measuring Impact on Shareholder Value
Selecting the Appropriate Discount Rate
Use a Spread Sheet Approach
Incorporate Into the Analysis Tax and Ratemaking Impacts on Cash Flows
Shareholder Value Measurement

As a group project we will prepare a spreadsheet to see whether a capital project should be done. The groups will present answers to questions which come up in the analysis. The project and the presentations of answers is a comprehensive hands-on review of much of the material in the seminar.

Conclusions

DAY THREE: 8:00-3:00

Accounting for Income Taxes

Learning Objective: Understanding the accounting for tax-book differences and normalization versus flow through for ratemaking.

Temporary Differences

We discuss the use of normalization or flow through for ratemaking. We look at the utility’s deferred tax balances, where they came from and the ratemaking implications. An illustration of the flow through for regulatory asset is included.

Cost of Capital

Learning Objective: To be able to calculate the two different weighted average cost of capital figures for the company, one which is used for ratemaking and the other for capital budgeting.

Cost of Debt and Preferred
Cost of Equity

Comparable Companies
Weighted Average Cost of Capital

After introductory material we will determine the cost of debt, preferred and equity for a utility. Two methods of determining the cost of equity will be used -- the DCF method and the risk premium approach. Testimony from rate cases will be reviewed.

Capital Project Analysis Review Case

Learning Objective: Learn to do a present value analysis using incremental cash flows as impacted by the four sets of books.

Identify Incremental Cash Flows as Opposed to Accrual Figures
Measuring Impact on Shareholder Value
Selecting the Appropriate Discount Rate
Use a Spread Sheet Approach
Incorporate Into the Analysis Tax and Ratemaking Impacts on Cash Flows
Shareholder Value Measurement

As a group project we will prepare a spreadsheet to see whether a capital project should be done. The groups will present answers to questions which come up in the analysis. The project and the presentations of answers is a comprehensive hands-on review of much of the material in the seminar.

Conclusions
WE go through the accounting for retirement of plant. This accounting differs from most normal GAAP. We look at each of the regulatory assets and liabilities of a utility as shown on the financials and answer the question—why is this a regulatory asset or regulatory liability and not a normal asset or liability.

LEARNING OBJECTIVES:  T o see how adjustment mechanisms work and reduce risk at the utility.

Why and How GAAP Differs from non-regulated operations

Regulatory Assets and When to Remove Them

Plant Write-Offs Under GAAP

We discuss specific pieces of GAAP with examples from the financials. We review the utility’s note on Significant Accounting Policies to see in which area the utility violates normal GAAP. We look at each of the regulatory assets and liabilities of a utility as shown on the financials and answer the question—why is this a regulatory asset or regulatory liability and not a normal asset or liability.

COCKTAILS  4:30 -  5:30

DAY THREE: 8:00-3:00

CWIP and AFUDC

Learning Objective: Understanding how the utility recovers its construction financing costs from the ratepayers.

AFUDC versus Interest Capitalization

Analysis of the two methods of rate setting --CWIP in rate base and CWIP not in rate base. Comparison of interest capitalization under usual GAAP and the regulated company’s method.

Accounting Methods and their Impact on Financial Metrics

Learning Objective: Gain an understanding that key financial measures and ratios can be significantly influenced by alternative accounting methods and estimates.

EBITDA

Cash Flow

EPS

Debt/Capitalization

Leasing Example

We will look at how key financial measures are impacted by the classification of transactions under GAAP and how the classification for ratemaking can impact rates. Examples of the difference between Operating or Capital Lease Accounting will be studied.

Credit Rating

Learning Objective: See how the bond raters rate the bonds of a company in order to see what we need to do as a company to improve or maintain our rating.

S&P Targets for Bond Rating

Capitalization Ratios

Funds Flow Ratios

Adjustments to Financial Statement Figures

This is a specific example using the financial statements in financial analysis. We focus on how S&P uses ratios to determine the bond rating for a company. We compare our answer to the actual rating.

LEARNING OBJECTIVES: Professional development to enhance the understanding of critical finance and accounting skills. Upon completion of the seminar (group-live) participants will be able to:

- Learn the mechanics of the calculation of ROE
- Understand why different accounting methods and estimates are used for setting rates; managerial accounting and GAAP
- Understand the applicability of ASC 980
- Understand the theory of capitalization versus expense and the motivations of managers with respect to the issue
- Understand the role of depreciation in ratemaking estimates
- Find out how the utility recovers its construction financing costs from ratepayers
- Learn the difference between normalization versus flow through for ratemaking
Dr. Joel Berk will be teaching each seminar.

Registration Information
Space is limited. Please register early.
- Registration includes seminar materials handed out on Day One. Continental breakfast and lunch each day and a reception after class the first day.
- A block of rooms is reserved for our group at the hotel in Las Vegas and in Boston. Please call the hotel directly at the phone numbers below and mention you want a room in FAI's block.
- Call early. The block of rooms is only held open, unless filled, until four weeks prior to each seminar. Thank you.

LAS VEGAS
Golden Nugget Hotel
129 East Fremont Street
Las Vegas, NV 89101
800-634-3454 or 800-331-5731

BOSTON
Omni Parker House
60 School Street
Boston, MA 02108
800-THE-OMNI or 617-227-8600