CASE STUDY

Updating a Unit of Property Catalog for a Large Utility

CHALLENGE

A large southern utility faced complex accounting classification decisions for its aging generation and transmission equipment needing replacement. The situation was further complicated by first-of-a-kind obsolescence projects. An update to the company's unit of property (UoP) catalog was required to simplify accounting classifications while minimizing churn in capitalization decisions. The utility enlisted MCR to expedite the catalog update in a cost-effective manner and ensure quality in accordance with FERC, GAAP, and industry best practices.

SOLUTION

A thorough review and update of the UoP catalog was performed in three stages, grounded in feedback and insights from client staff:

GAP ANALYSIS AND BENCHMARKING

- Conducted a gap analysis comparing the existing catalog to MCR's proprietary approach establishing the optimum property unit definition. Details were added where needed and unnecessary property units were consolidated or deleted.
- Established informed capitalization thresholds and practices based on extensive MCR experience and by quantitatively benchmarking the client against peer utilities.

CATALOG WORKING REVIEW AND UPDATE

- Updated MCR's Property Unit Database to better track catalog changes and report on current, added, or removed retirement units.
- Reviewed catalog changes with client personnel and captured insights on historical issues and upcoming projects.

CAPITAL IMPACT ANALYSIS

- Performed a capital impact assessment to estimate changes in capitalization due to addition, deletion, or modification of retirement units in the catalog.
- Aggregated and evaluated client input and MCR industry cost data with Monte Carlo probabilistic analysis to sharpen estimated shifts between O&M and capital.

RESULTS

At each project stage, MCR provided key deliverables to the client:

GAP ANALYSIS AND BENCHMARKING

- Uncovered numerous catalog gaps, primarily characterized by inappropriate level of detail, incorrect organization/classification (e.g., system boundaries), missing components, and erroneous FERC account assignments.
- Provided a comprehensive comparison of client capitalization thresholds against national and peer benchmarks to support capitalization policy recommendations.

CATALOG WORKING REVIEW AND UPDATE

- Reduced the number of property units by 30%, eliminating repetition in the client's legacy catalog.
- Increased the catalog's overall asset coverage, giving the utility more flexibility in its capitalization decisions.
- Streamlined the catalog, alleviating decision-making contention and churn between asset accounting and other business units.

CAPITAL IMPACT ANALYSIS

- Refreshed the scope and frequency of capital projects on fixed assets.
- Identified an anticipated (conservative) shift from O&M to capital spending of roughly $40 million per year.

The Bottom Line
MCR's detailed review and update of the client's UoP catalog closed gaps in its capitalization policy, delivered an efficient and comprehensive catalog, and removed roughly $40 million per year from O&M spending. This enabled the client to effectively address the challenge of updating its aging utility infrastructure.

For further information, please contact:
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