

# Unlocking value

**How time studies optimize capital spending and ensure regulatory compliance**



The utilities industry is evolving with an increase in major capital projects, external factors of wildfires and storms, and increased expectations by customers for services received. Utilities are focused on delivering value for their customers through improved technology and grid enhancements. This often creates a need to support increased funding. By conducting time studies, utilities can reclassify and recover funds that would not have been previously capitalized and by doing so increase financial performance and rate base.

## Key drivers to conduct a time study

### Increased capital spending:

Utility companies are increasingly focused on capital projects as customer and regulator expectations are evolving regarding the services they receive, which provides an opportunity to capitalize additional overhead costs. In this scenario, investigating their current cost recoverability can uncover opportunities to positively impact overall financial performance.



### Internal restructuring:

With shifts in the utility industry and internal restructuring, including organizational changes, downsizing, or even increasing headcount, performing a time study will provide better insights into operations and align costs with capital activities.



### Compliance:

Utility companies carry the responsibility to establish practices that ensure compliance with regulatory requirements. Utilities need to assess and refresh capitalization rates periodically to reflect changes in operations and maintain accurate financial records. Additionally, rate cases can challenge the current rates, leading to increased scrutiny and a need to independently validate rates are accurate.



## Benefits of conducting a time study

### Qualitative benefits

The project will culminate in a KPMG LLP-branded report, which can be shared with relevant commissions (if applicable) to demonstrate the objective and independent nature of the time study. Additionally, you will receive a repeatable process and tools that will allow you to update and refresh the study at regular intervals.



The revised capitalization rates can be applied to your existing capital projects, potentially reducing costs reported on the income statement. It is advisable to consult with auditors to ensure compliance with the necessary accounting requirements.

### Quantitative benefits

# Considerations for the time study

Before conducting a time study, several key factors must be considered regarding ownership, timing, and factors that impact the capitalization rate. These considerations include:



## Ownership

The time study results should be owned by the chief accounting officer/controller, who will sign off on the overhead rates with input/approval from Operations managers, Shared Services functional owners, and Legal and Regulatory.



## Timing

Leading utilities conduct internal time studies annually and engage a third party every 3–5 years to provide an independent perspective. Additionally, if there is a major project midyear that significantly impacts the overall plan and capex/opex budgets, then utilities refresh the rate for the affected departments and cost centers.



## Factors that impact the rates

Acquisitions/sales of subsidiaries or new operations, corporate restructuring, changes in the shared services organization and the services they provide (e.g., decisions to outsource some services or creation of a group to apply for and manage government grants and loans), or reductions in force impact part or all of the functions in the Cost Allocation Manual.

## How KPMG can help

KPMG has an established approach to a time study that has withstood the regulatory process and is adaptable to fit your individual needs. We collaborate with you to make this as smooth as possible with minimal interruptions to your business, while helping ensure professional skepticism and compliance with regulations.



**Demonstrated success:** KPMG has a strong history of conducting customized time studies for utility clients, aligning with both regulatory and business needs.



**Flexible approach:** We consider your business needs and timeline, collaborating with you to determine the optimal period and duration for conducting the time study, as there is no one-size-fits-all approach. Additionally, if you have an existing process for conducting time studies, we will work with you to adapt to or improve your existing process and tools.



**Regulatory experience:** Our time studies withstand regulatory scrutiny, complying with standards and helping clients navigate regulatory complexities.

KPMG regularly works with our utility clients to provide compliance audit services and our time studies have been accepted by FERC and state regulators.



**Sustainable repeatable process:** The process developed by KPMG has been standardized and can be repeated to update the capitalization rates on an ongoing basis. It is important to help ensure the timing of the study corresponds to a normal period of work activity; using a third party can help ensure the study is conducted in the proper time frame.

# Key steps in the KPMG approach to conducting time studies

1

## **Project initiation**

This phase involves developing the work plan, preparing the data request, and defining the project scope in collaboration with the client team.

2

## **Data analysis and preparation for time study**

Based on the defined scope, we will identify the participants for the time study. The client team will select an appropriate time study period to accurately reflect typical activities. We will also develop the time sheets that will be used to record the hours worked.

3

## **Conducting the time study**

Throughout the time study period, we will collect and analyze the completed time sheets from participants. This will allow us to begin formulating the initial findings.

4

## **Final report preparation**

Once the time study is completed, we will compile and present a final report detailing our findings and the determined capitalization rate.



## Case studies



### Labor cost capitalization time study

- At the request of the local utility regulator, the client needed to complete an objective third party time study.
- The client engaged KPMG to develop and execute the time study and to prepare a summary report detailing the outcome of the study.
- At the completion of the study, it was determined that two distinct capitalization rates were required to reflect the business's unique circumstances. Values were calculated to reflect the labor activities of both unique populations.
- A summary report was prepared and filed with two state utility regulators and FERC, who accepted the study "as-is."



### Capitalization time study

- The client had not conducted a time study in the past few years. Since then, they have reorganized certain corporate support overhead groups as part of a reporting segment change and have increased planned capital expenditures as part of a new investment plan.
- KPMG developed a study and sampling methodology to gather information on Corporate Support and Shared Services activities. This data was analyzed both individually and in aggregate to determine the capitalization rates for their time spent on capital activities.
- Upon completion of the study, KPMG provided the client with an updated capitalization rate derived from the thorough time study. This adjustment led to an approximate \$40 million pretax reclassification from operating expenses to Plant-in-Service or Construction Work in Progress on the balance sheet.

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