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Public Service Commission of Wisconsin
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BEFORE THE

PUBLIC SERVICE COMMISSION OF WISCONSIN

Investigation on the Commission's own Motion to Amend the Uniform System of Accounts for Municipally-Owned Electric, Water, and Sewer Utilities

05-US-117

FINAL DECISION

This is the final decision to amend the Uniform Systems of Accounts (USOAs) for Municipal Electric, Water, and Sewer Utilities to reflect current operational characteristics, facilities, and accounting requirements of present-day utility operations. The revised USOAs will replace the current systems of accounts.

Introduction

By order dated January 9, 1959, in docket 2-U-5005, the Public Service Commission of Wisconsin (Commission) prescribed the USOAs for various classes of municipally-owned water and electric utilities. By supplemental order dated December 5, 1975, in docket 2-U-5005, the Commission approved and adopted a USOA for municipally-owned sewer utilities. The Commission has subsequently revised these USOAs on various dates and with supplemental orders in various dockets. In this docket, the Commission has consolidated past accounting decisions and rewritten the system of accounts to replace the current USOAs for municipal electric, water, and sewer utilities. The effective date of the new USOAs is January 1, 2008, to be reported in the utilities' 2008, annual reports filed with the Commission by April 1, 2009.

Findings of Fact

1. The passage of time and changes in accounting requirements and utility facilities have rendered inadequate the present USOAs for municipal utilities.

2. The revised USOAs reasonably permit regulating electric, water, and sewer municipal utilities without imposing unnecessary administrative burdens on them.

Conclusions of Law

1. The Commission has authority under Wis. Stat. §§ 196.02(1), 196.06, 196.08, and 196.39 to modify and replace the USOAs for municipal utilities.

2. A hearing is not required nor was one held.

3. It is in the public interest that the use of the current municipal systems of accounts be discontinued and that the revised USOAs for municipal utility operations be adopted.

Opinion

The current municipal electric and water USOAs date from 1959, and the sewer USOA from 1975. These USOAs have been supplemented in various dockets since first being adopted. The Commission initiated this docket to consider a consolidation and update of these USOAs. The new USOAs primarily incorporate more recent Commission accounting decisions, such as the accounting for contributed plant, and refresh antiquated language while eliminating outdated accounting practices. They provide more consistency of common electric and water account descriptions, revise the electric utility classifications based on the number of customers served, and revise common terminology throughout the USOAs.

On October 4, 2007, a request for comments on the draft USOAs was electronically issued to all the contact persons listed in the annual reports filed by all municipal utilities and to

other stakeholders.[1] New draft versions of the USOAs were also posted to the Commission's electronic regulatory filing system. Five responses were received from three utilities, an accounting consultant, and one trade association. The USOAs for the respective industries incorporate changes to the preliminary drafts based on the comments received with the exceptions discussed below.

Contributions in Aid of Construction (CIAC)

The draft USOAs incorporate the Commission's decisions regarding the accounting for CIAC. The changes associated with this major policy decision went into effect under docket 05-US-105 on January 1, 2003, and affect municipal utility rate cases and accounting requirements. The detailed accounting provisions of the appendices of the Final Decision in docket 05-US-105, issued in 2001, have been made a part of the redrafted municipal USOA of each industry.

One of the filed comments related to the Commission's CIAC decision. The commentor questioned the Commission's long-held practice of recording the total cost of plant contributed or to be contributed as CIAC at the time the asset is placed in service. This is not a new policy or practice as it applies to accounting for Contributions In Aid of Construction.

The Commission's decision in docket 05-US-105 affirmed its past practice of having utilities record the full cost of a contributed asset upfront as CIAC as it is placed in service. While not a specific issue to be decided in that docket, the practice of recording the full cost

[1] The request for comments was sent to over 800 e-mail addresses on the annual report contacts list. Some utilities list two contacts, a utility representative and an outside accountant. The request was also provided to the Wisconsin Rural Water Association, the Wisconsin Water Association, the Municipal Electric Utilities of Wisconsin, and Wisconsin Public Power Inc.

upfront is demonstrated in the accounting treatment authorized to retire assets that have been funded by contributions. In Appendix B to the Final Decision, Subaccount 111.2 (B), Accumulated Provision for Depreciation of Utility Plant, Contributed Plant, requires, "At the time of retirement of depreciable utility plant in Subaccount 101.2, Utility Plant, Contributed Plant, this account shall be charged with the book cost of the property retired ...". This instruction to remove all of the book (original) cost of the retired unit of plant from Subaccount 101.2 and charge Subaccount 111.2 with the same amount is viable only if the full cost of the contributed asset was initially booked as CIAC. Otherwise, when retiring the asset, provision would have to have been made to charge a portion of the accumulated depreciation to Subaccount 111.1, Accumulated Provision for Depreciation of Utility Plant, Financed by Utility Operations or by the Municipality.[2]

The incorporation of the Commission's CIAC decision in the municipal USOAs is consistent with the Commission's order in docket 05-US-105 and accounting upfront for contributed assets. This is the accounting practice used both before and after the 2003 effective date of the 2001 CIAC final decision. Changes to this accounting practice would need to be considered in an evidentiary proceeding. This docket is an investigatory not an evidentiary proceeding and a hearing record was not established as a basis to consider such a change. It is not in the public interest to further delay the adoption of the new to take up the merits of a different method of accounting for CIAC.

Municipal Electric Utility Classifications

The new municipal electric USOA bases the classification of municipal electric utilities on the number of customers rather than on operating revenues, similar to water utilities.

[2] Water Class AB account numbers are used in this paragraph.

Classification based on the number of customers is preferable because an electric utility may find itself in a situation where its revenues rise considerably while the relative size of the utility experiences less growth. The level of operating revenues is not completely indicative of how a municipal electric utility should be classified. The gain or loss of one major customer may have a dramatic revenue impact on the utility. Also, a period of increasing operational costs may result in a utility having to request higher rates. While the revenues may change dramatically, the operating characteristics of the utility would not change significantly.

The break-off between Class AB and Class C municipal electric utilities is at 4,000 customers, consistent with the break-off of Class AB and Class C municipal water utilities. The municipal electric USOA also eliminates the Class D USOA for the municipal electric utilities which is more consistent with the two classifications for the "Major" and "Nonmajor" investor-owned electric utilities. Most of the utilities that that would be affected by the Class AB and C cut-off points are already Class AB or report voluntarily as Class AB.

Any utility may, at its option, adopt the USOA prescribed by the Commission for a higher class of utilities.[3] Combined utilities would continue to be classified and report based on the highest classification of any one of the reporting entities.

A concern was expressed for municipal electric utilities that may have to develop and maintain work order systems and continuing property records as a result of the change in classification method. The Commission acknowledges the potential for this situation but anticipates that there will be few systems so impacted. The Commission will allow any system that is upgraded to Class AB as a result of this change to achieve compliance over a reasonable

[3] A higher class means more comprehensive accounting requirements. For example, Class AB over Class C.

period of time. The added long-term benefits and consistency between the way municipal water and electric utilities are classified will outweigh any limited, temporary inconveniences.

MISO Market Day 2 Invoicing Mechanism

A concern was put forth regarding accounting guidance on various transactions related to the MISO Market Day 2 invoicing mechanism. The hope was that the municipal electric USOA could establish some direction in this new area. The Commission agrees with the intent of this request but concludes it is not in a position to provide the guidance at this juncture. As accounting policy and practice is forged anew on this topic, it may be necessary to issue supplemental accounting treatment for these transactions. Any supplemental Commission decisions will be incorporated into an amended municipal electric USOA as we move forward.

Customer Service and Information Expenses

An expense account for Customer Service and Information Expense has been created for all classes of electric, water, and sewer utilities. This is to encourage safe and efficient use of the utility's service, promote conservation, and assist present customers in answering specific inquiries as to the proper and economic use of the utility's service and the customer's equipment utilizing the service. Conservation related expenses previously recorded in Sales Expense accounts are to be accounted for in the newly created Customer Service and Information Expense account. This account is the same as that in the USOA for small investor-owned electric and natural gas utilities.

Conclusion

The new USOAs are approved by this final decision and incorporated by reference, referred to as Appendix A, B, and C for Municipally-Owned Electric, Water and Sewer Utilities, respectively. The new USOA are available on the Commission's Electronic Regulatory Filing

System under this docket number. The new USOAs will also be available on the Commission's Internet website, www.psc.wi.gov. A printed copy of a USOA shall be provided to a municipal public utility upon request.

This Final Decision shall take effect on the day after the date of mailing. The new USOAs shall become effective January 1, 2008, to be reported April 1, 2009.

Order

1. The new USOAs are adopted for municipal utilities. These new USOAs shall be referred to as Appendix A, B, and C for Municipally-Owned Electric, Water, and Sewer Utilities, respectively and incorporated by reference to this Final Decision. The new USOAs replace the USOAs approved in original and supplemental accounting orders previously issued by the Commission.

2. The new USOAs shall become effective on January 1, 2008, to be reported in the utilities' 2008, annual reports filed with the Commission by April 1, 2009.

3. This Final Decision takes effect on the day after the date of mailing.

4. The Commission retains jurisdiction.

Dated at Madison, Wisconsin, January 30, 2007

For the Commission:

Amelia Ramirez, Administrator
Division of Water, Compliance and
Consumer Affairs

Robert Norcross, Administrator
Gas and Energy Division

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See attached Notice of Appeal Rights

Notice of Appeal Rights

Notice is hereby given that a person aggrieved by the foregoing decision has the right to file a petition for judicial review as provided in Wis. Stat. § 227.53. The petition must be filed within 30 days after the date of mailing of this decision. That date is shown on the first page. If there is no date on the first page, the date of mailing is shown immediately above the signature line. The Public Service Commission of Wisconsin must be named as respondent in the petition for judicial review.

Notice is further given that, if the foregoing decision is an order following a proceeding which is a contested case as defined in Wis. Stat. § 227.01(3), a person aggrieved by the order has the further right to file one petition for rehearing as provided in Wis. Stat. § 227.49. The petition must be filed within 20 days of the date of mailing of this decision.

If this decision is an order after rehearing, a person aggrieved who wishes to appeal must seek judicial review rather than rehearing. A second petition for rehearing is not an option.

This general notice is for the purpose of ensuring compliance with Wis. Stat. § 227.48(2), and does not constitute a conclusion or admission that any particular party or person is necessarily aggrieved or that any particular decision or order is final or judicially reviewable.

Revised 9/28/98