

WATER UTILITY REFERENCE MANUAL



Public Service Commission of Wisconsin

WATER UTILITY REFERENCE MANUAL

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Introduction

This Water Utility Reference Manual is provided by the Public Service Commission (PSC) as a resource to help utilities interpret the Uniform System of Accounts (USOA) and prepare PSC annual reports.

This manual is meant to supplement, not replace, the USOA for your utility. The original USOAs for municipal water and electric utilities were ordered in 1960 and the USOA for sewer utilities is dated 1976. On January 31, 2008, the Commission issued updated USOAs for municipal water, sewer and electric utilities that modernized and revised language as well as consolidated past accounting decisions. Utilities should refer to the appropriate USOA for a complete description of accounts. This manual expands on the USOA by reviewing accounting ledgers and journals needed by the utility and discussing common utility accounting transactions and procedures.

If you have questions that you are not able to answer by reviewing your USOA or this manual, please contact the Division of Water, Telecommunications, and Consumer Affairs at (608) 266-3766 or e-mail us at PSCWaterAppMail@wisconsin.gov or visit our website.

Correspondence may be sent to:

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Minimum Accounting Requirements and Internal Control Recommendations

The Public Service Commission (PSC) requires all utilities to maintain, at a minimum, the following accounting books and records:¹

- General ledger
- Plant ledgers with detail by primary plant account
- Cash receipts journal
- Cash disbursements journal (check register)
- Sales journal (revenue summary)
- Customer accounts receivable ledger
- General journal

These books and records should enable verification and identification of all entries to the accounts. The accounts maintained by these records conform to the Uniform System of Accounts prescribed by the PSC for the class and type of utility service being provided.

¹ PSC order, "Accounting Records for Utilities," docket 05-US-101, dated May 22, 1986

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General Ledger

The general ledger provides for the orderly accumulation of financial transactions in summary form as recorded in the general journal, cash receipts journal, cash disbursements journal (check register), and sales journal (revenue summary). Postings are from the general, cash disbursements/receipts, or sales journals, and are made monthly or quarterly.

- All books should be closed at the end of each calendar year.
- Transactions include the account title and number and are recorded with offsetting debits and credits.
- Each entry in the general ledger includes a reference indicating from which journal the related entry was posted.
- The utility may create subaccounts within each account, provided that the total for such subaccounts agrees with the account balance reported in the PSC annual report. The account number for a subaccount should be a decimal extension of the primary account number.

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Plant Ledger

The plant ledger (required for Class AB²) is a subsidiary ledger to the general ledger providing individual records of plant assets for each plant account. The records should include items such as plant asset description, the location of the asset, the date the plant asset was placed in utility service, the general ledger account, and the related depreciation reserve, the original cost and contributed cost of the asset. It may also include other information relating to the asset.

- The plant ledger is maintained as plant transactions occur.
- The sum of balances in the plant ledger should equal the general ledger plant account balances.
- Underlying records which detail property units and costs are also maintained. These records are referred to as continuing property records (CPRs). For more information, please see Chapter III: Utility Plant and Accumulated Depreciation, Work Orders, and Continuing Property Records.

Contributed plant is donations or contributions in cash, services, or property for purposes of construction that are delivered from states, other municipalities, other governmental agencies, individuals, etc. The current accounting procedures for the way donations are recorded are covered in Chapter III.

Class C and D utilities are not required to keep plant ledgers, but it is a good bookkeeping practice to track the many assets of a utility. A plant ledger keeps the elementary data for asset management and can assist utility managers in making good decisions that affect the efficiency of their utility.

² Class C & D utilities are not required to keep a separate plant subsidiary ledger. These utilities may keep detail by primary plant account in the General Ledger.

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Cash Receipts Journal

The cash receipts journal provides the original record of all prenumbered receipts issued in numerical order (including voided receipts), the issue date of each receipt, receipt number, payer, amount received, and the accounts debited and credited.

- The utility may maintain separate collection books for voluminous collections (such as water bills), total such books periodically, and issue general receipts for the totals deposited in the bank in lieu of individual general receipts.
- For computer systems, the postings to the general ledger accounts should be identifiable and easily traced to the specific receipts.
- For manual journals, each item in the cash column is equal to all amounts in the distribution columns. These columns are totaled each month to ensure that the monthly total in the cash column is equal to the summation of the monthly totals in the distribution columns. Monthly or quarterly, the totals of the account classification columns are credited to the proper accounts in the general ledger, and the total of the cash column is debited to the cash account.
- All receipts are deposited in the bank on a timely basis, and the bank statements are reconciled to the accounting records monthly.

If collections for electric, water, and sewer bills are initially deposited in one checking account, but the utility maintains separate checking accounts for electric, water, and sewer operations, transfers to individual utility checking accounts should be made on a regular basis. Deposits are reconciled to the receipts or the collection book.

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Cash Disbursements Journal

The cash disbursements journal provides the original record of all cash disbursements. This record lists all checks issued in numerical order, the issue date of each check, check numbers, payees, amounts disbursed, and the accounts debited and credited. Checks are pre-numbered and listed in the journal in numerical order, including voided checks.

- For computer systems, the postings to the general ledger accounts should be identifiable and easily traced, either directly or through computer runs, to supporting checks.
- For manual journals, the totals of the account distribution columns are debited to the proper accounts in the general ledger, and the total of the cash column is credited to the cash account. Each amount in the cash column is equal to all amounts in the distribution columns and totaled monthly.
- The totals from the cash disbursements journal are posted to the general ledger either monthly or quarterly.

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Sales Journal or Revenue Summary

The sales journal (also known as a revenue summary) is the original record of the total sales for each billing period. It provides a summary of sales, typically billed monthly, or quarterly. This journal includes the summary of the types of sales by customer classification, the amount of sales, and the accounts debited and credited.

- Billings are recorded in this journal when the bills are issued. (When the bills are paid, collections are recorded in the cash receipts journal.)
- It is not necessary to record each individual bill issued in the sales journal. The utility may use the billing register to keep a record of detailed customer bills. It is only necessary to record the monthly or quarterly total sales for each classification of customer in the sales journal.
- The total sales recorded in the debit column should equal the total sales in the credit columns for each entry made. Each of the summary totals is posted to the general ledger.

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Customer Accounts Receivable Ledger

The customer accounts receivable ledger is a subsidiary ledger to the customer accounts receivable account in the general ledger. This ledger provides details about the individual customer accounts receivable.

- The accounts receivable ledger is posted from the billing register and the cash receipts journal when the transactions occur.
- After all postings are completed, the sum of all customer accounts receivables in this ledger equals the customer accounts receivable controlling account balance in the general ledger.
- The returned portion of customers' bills are dated and stamped "Paid" to simplify reconciliation to customer accounts receivable detail and bank deposits.

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General Journal

The general journal is the initial record of accounting transactions which are not appropriately recorded in the cash disbursements, cash receipts, or sales journals. Because entries in the general journal are not as easily understood as those recorded in the receipts or disbursements journals, a full explanation or reference is recorded as a part of the entry so that its purpose is evident.

- The utility may include more detailed explanations in a journal voucher (a voucher specifically used to document a journal entry). The journal voucher is used as a source document for entry in the general journal. Depreciation expense, adjustments to previously recorded transactions, and non-cash transactions (including the recording of receivables, payables, and removing material from inventories) are recorded.
- The general journal is posted to the general ledger monthly or at least quarterly.
- The revenue and expenditure accounts are closed at the end of the year. The closing entries for the general ledger are compiled by:
 1. Debiting each revenue account, and
 2. Crediting each expenditure account.
 3. Unappropriated Earned Surplus is debited or credited for the net difference between totals from the revenue and expenditure accounts to affect a balanced entry.

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Internal Controls for Small Utility Offices

Segregation of Duties

The available office staff for small utilities precludes a proper separation of functions to assure adequate internal control. Management should be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in management's knowledge and monitoring of matters relating to the utility's operations. Following are some best practices of internal controls we recommend to those utilities with small office staff.

Disbursement Controls

1. All goods received should be inspected by qualified receivers who document their inspection.
2. All invoices should be reviewed for correctness and initialed by the clerk performing the review.
3. All invoices should be approved for payment by the appropriate department head who signs the invoice before it is submitted to the local governing body for approval.
4. All disbursements should be supported by adequate documentation.
5. All invoices attached to a voucher should be canceled in some way so that even if they subsequently become separated from the voucher, they could not be resubmitted for payment.

Failure to follow these procedures could result in paying for damaged or inferior goods or for items not received, in subsequent misunderstanding of who is responsible for a particular purchase, in overpaying improperly computed bills, and in duplicating payments.

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Internal Control Recommendations (continued)

Payroll Controls

- Payroll vouchers should be prepared for all commissioners and for salaried personnel.
- All employees should sign their time sheets.
- A responsible official should initial all time sheets to show review for clerical accuracy and approval.

Failure to follow these procedures could result in the payment of improperly computed wages or in the payment for hours not worked or authorized.

Bank Reconciliation

- All canceled checks should be examined for irregular endorsements.
- The monthly bank reconciliation should be reviewed by a responsible official.
- All voided checks should be retained with the canceled checks and the word “void” written plainly across the face of the check.
- Review all bank transfers to find out if both sides of the transaction have been properly recorded.

Failure to follow these procedures could result in undetected fraudulent signatures or endorsements, alteration of checks, improper use of void checks, or improper recording of bank transfers.

Prenumbered Receipts

The utility should issue prenumbered receipts for all collections, individually or in total from a daily compilation of similar transactions (blotters). When there are too many transactions to acknowledge by individual general receipts the utility may maintain separate daily records (blotters) of water bill collections and other voluminous collections. The utility should periodically total these compiled transactions (blotters) and issue general receipts for the totals deposited in the bank.

Bill Stubs

Date and stamp the duplicates of customers' bills “Paid” to simplify reconciliation to customer accounts receivable detail and bank deposits.

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Internal Control Recommendations (continued)

Bank Deposits

All monies received by the utility should be deposited intact in the bank on a timely basis and the bank statements reconciled to the accounting records monthly.

Fidelity Bond Coverage

The utility should carry bond coverage for personnel responsible for utility funds. Local governments should establish guidelines to help ensure that security bonds, in sufficient amount, are set for local officials and employees. Such bond coverage is protection for both the utility and the personnel charged with the above duties.

Bank Transfers

If collections for electric, water and sewer bills are initially deposited in one checking account, make transfers to individual utility checking accounts on a regular or timely basis, and reconcile all receipts to the deposits or the collection daily record of transactions.

Sequentially Numbered Checks

We recommend that the utility issue all checks for payments of its obligations in sequential order.

Void Check Retention

The utility is to retain all void checks and attach them to their respective check stubs. Properly deface all void checks by writing the word "Void" across the entire check surface.

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Internal Control Recommendations (continued)

Collection Procedures and Bill Stubs

Record the date of each collection for each customer in the collection register. The portion of the bill returned with the customer payment (bill stub) should be stamped “Paid” and dated when paid to simplify reconciliation to customer accounts receivable detail and bank deposits. If the customer fails to return the bill stub with the payment, make out a receipt showing the date of the payment. According to Section 185.19(4) of the Wisconsin Administrative Code, keep records relating to billings six years or until they are no longer needed to adjust bills.

Since the bill stubs are records of customer billings and receipts, we recommend that you retain them for at least six years.

Security of Cash

If the utility collects customer payments at the utility office, always secure the cash box by lock and always keep it under the supervision of a responsible utility official.

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Utility Plant and Accumulated Depreciation

Capitalization Policy

Costs are capitalized in the utility plant accounts, rather than being expensed in the current year, if: the service life is more than one year, the dollars are significant, it is used primarily for providing utility service, and it constitutes a distinct unit of property.

Defining what a utility's units of property are, is a way to establish a consistent policy of what is capitalized versus what is expensed. Capitalized plant has more administrative cost associated to it because the utility needs to keep data on the unit of property over its life and beyond.

For general plant only, the costs of small, low-value items are expensed when purchased even though they may have a service life of more than one year. Examples of these items are staplers and calculators used in the office or hand tools used in the field. The dollar limit used to consider an item "low cost" is set by the utility but should be followed consistently as items are purchased. The accounting water staff of the Public Service Commission has approved an upper limit of \$5,000 below which the cost of an item can be expensed.

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Categories of Plant

Utility plant may be categorized in several different ways; including intangible and tangible, depreciable and non-depreciable, plant under construction or plant in service and contributed and utility invested plant.

- Intangible plant consists primarily of organization expenses incurred during the initial formation of the utility. Almost all plant costs are identified with tangible property and equipment.
- Most utility plant is subject to depreciation, with the exceptions being, intangible plant and land rights. However, intangible plant may be amortized to operating expenses with the approval of the Commission.
- Utility plant under construction is recorded in a temporary account, Construction Work in Progress. Upon completion of the project and when the plant is placed into service, costs are allocated to the primary plant accounts.
- Contributed Plant (Account 101.2) is plant owned and used by the utility, which has an expectation of life in service of more than one year from the date of installation. This plant is financed by donations or contributions in cash, services or property from states or other municipalities or other governmental agencies, individuals, and others for construction purposes. The depreciation of contributed plant is not included as an expense in establishing rates for the utility.

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Plant Accounting

Specific procedures for accounting for utility plant are listed below.

The total of all primary plant accounts and any subaccounts is listed in the balance sheet of the PSC annual report as Utility Plant in Service.

- Plant additions – Both direct costs and construction overhead costs are charged to the utility plant accounts. Direct costs include utility labor, materials from inventory, payments to outside contractors and suppliers, and vehicle expenses. Construction overhead costs include engineering design fees, supervision and inspection, advertising for bids, payroll fringe benefits, and interest during construction.

Utility plant constructed by a developer and contributed to the utility is recorded the same way as other utility plant, based on detailed costs supplied by the developer. If actual costs are unavailable, the utility should estimate the costs when recording the new plant. These costs are not recovered in rates and are discussed more in the subsection, “Contributions in Aid of Construction”.

- Plant retirements – When a unit of plant is removed from service, the original cost is retired by a debit to accumulated depreciation and a credit to the plant account. If the actual cost is unknown, use an estimate of the original cost based upon information from the general ledger or statistical schedules in PSC annual reports. Below is a table that provides benchmarks for retirement costs for mass units if the utility does not have retirement records.

A gain or loss is not ordinarily recorded upon retirement of a unit of property, with two exceptions: (1) Plant depreciated on a unit basis, and (2) the sale of non-depreciable land for an amount other than the original cost.

- Replacements – The replacement of a unit of property is accounted for as the addition of a new unit and retirement of the old unit. This should also be reflected in statistical schedules of the PSC annual report which show both additions and retirements.

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Benchmark Retirement Costs for Small Water Utilities Without Property

<u>Years of Installation</u>	<u>Records</u>			
	6" or 8" Mains (per foot)	5/8" to 1" Services (per unit)	5/8" to 1" Meters (per unit)	Fire Hydrants (per unit)
Prior to 1920	\$ 2.00	\$ 20.00	\$ 10.00	\$ 70.00
1920 to 1929	\$ 3.00	\$ 30.00	\$ 15.00	\$ 80.00
1930 to 1939	\$ 4.00	\$ 40.00	\$ 25.00	\$ 100.00
1940 to 1949	\$ 6.00	\$ 60.00	\$ 35.00	\$ 150.00
1950 to 1959	\$ 8.00	\$ 80.00	\$ 40.00	\$ 250.00
1960 to 1969	\$ 10.00	\$ 100.00	\$ 50.00	\$ 500.00
1970 to 1979	\$ 20.00	\$ 200.00	\$ 60.00	\$ 750.00
1980 to 1989	\$ 25.00	\$ 300.00	\$ 70.00	\$ 1,000.00
1990 to 1999	\$ 35 .00	\$ 500.00	\$ 10 0.00	\$ 1,500.00
2000 to 2003	\$ 45 .00	\$ 650 .00	\$ 125 .00	\$ 2,000.00
2004 to 2006	\$ 60 .00	\$ 850.00	\$ 14 0.00	\$ 2,500.00
2007 to 2009	\$ 80.00	\$ 1,250.00	\$ 160.00	\$ 3,000.00

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Work Orders and Continuing Property Records

Class AB utilities are required to record utility plant additions and retirements on work orders. Some utilities also use work orders to track repairs, such as main breaks. The sum of all outstanding construction work orders will agree with the balance in Account 107, Construction Work in Progress. When construction work orders are closed, entries are made to the general ledger and continuing property records. A completed work order may include: authorization for the project, plans and specifications, records of expenditures such as voucher numbers or check numbers and classification of expenditures including: maintenance, removal costs of capitalized assets, property units added and retired, and the cost accounting of those property units to determine original cost, also known as retirement costs.

Costs are itemized by property units in continuing property records (CPRs). The CPRs are maintained correctly, when the sum of costs assigned to property units agrees with the plant account balance. The integrity of CPRs is assured by periodic inventories of property or cyclical field verification of mass property units. In each account, the CPR indicates property units, quantities, actual or initially estimated original costs, ages, and locations. Maps are used to disclose locations and dates of installation for mass property.

Examples of CPRs are a card file or database file for meters, water mains segregated by size and type of pipe and year of installation, and a description of a building, including location, type of construction, additions and retirements. Each vintage or year of a CPR is a summary of that utility's additions and retirements to its assets for that year.

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Developing Continuing Property Records (CPR)

If the utility wants to develop a CPR it can begin by doing an inventory of its property. Location properties are those significant assets that can be easily identified at a location, like the equipment in a well house, pumping station or tower. Mass units are characterized as similar equipment that are retired based on an average retirement cost for a particular vintage. Mass units are mains, hydrants and services and are usually inventoried using an accurate map.

The third type of asset composes the general plant accounts and includes office, stores, tools, laboratory, power operated and communication equipment. General plant equipment is usually subject to a capitalization policy that establishes a minimum value to capitalize the asset. If general plant accounts (except transportation and power operated equipment) are amortized then the utility no longer needs to keep track of the asset for depreciation and retirement purposes.

Location property and general plant are inventoried by a physical visit of the asset to develop a unique description of the asset, determine the year it was installed, a note of its location and establish its original cost. Mass units are inventoried by counting the units of property on an accurate map.

At the time a utility grows such that it exceeds 4,000 customers, then it may need to make estimates when original documents are not available in order to set up CPR records. Once CPRs are set up, actual costs are recorded each year providing the date, installation and the actual original costs.

When determining the age of the distribution system and the year of installation is not known then the utility can estimate the assets' age. For example a town probably knows when a water utility began and can associate that vintage to an inventory of the assets (typically mains, hydrants and services) in the core (oldest) area of the community, naming the vintage "1950 and older". The age of the remaining assets (main) can be estimated in blocks of ten, five or one year increments that represents how the community developed over time.

If the original cost is not known for these assets, an estimate of the retirement cost, also known as unit cost, can be made by allocating all of the dollars in the plant account to the inventoried assets. The PSC has a spreadsheet that can be used to initially establish the CPR records.

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Location Property Initial CPR Set-up Spreadsheet Example

Initial Spreading of Plant Account Dollars to Inventory

Development of Location Property Original Costs August, 1997

Account 325, Electric Pumping Equipment

LOCATION/UNIT DESCRIPTION	YEAR	\$/YEAR	\$/LOCATION	\$/ACCOUNT
<u>Well #1: Treatment Plant</u>				
Electrical Panels	1939	\$869		
American Turbine Pump, 1500 gpm	1993	\$4,808		
Fairbanks Morris, Model 361089, 50 hp	1939	\$541	\$6,218	
<u>Well #2: Lakeside</u>				
Cutler Hammer Panel	1939	\$869		
Worthington Pump, 1500 gpm	1985	\$2,000		
U.S. Motor, 60 hp, S/N 152720	1985	\$2,500	\$5,369	
<u>Well #3: Downtown</u>				
Square D Electrical Panel	1949	\$2,714		
Layne Pump, 1400 gpm	1949	\$3,410		
US Motor, 150 hp, S/N NA	1949	\$835	\$6,959	
<u>Treatment Plant:</u>				
Federal Pacific Panel, S/N M7878	1957	\$2,147		
<u>High Service Pump #1</u>				
Layne Pump, 1400 gpm, S/N 38216	1957	\$1,552		
Allis Chalmers motor, 100 hp, S/N 1-51-58-12977-1-1	1957	\$2,469		
<u>High Service Pump #2</u>				
Layne Pump, 1050 gpm, S/N 38217	1957	\$1,164		
Allis Chalmers motor, 75 hp, S/N 1-5337-97262-1	1957	\$1,400		
<u>High Service Pump #3</u>				
Layne Pump, 1050 gpm, S/N 38218	1957	\$1,164		
US Motor, 75 hp	1996	\$5,155		
<u>High Service Pump #4</u>				
Layne Pump, 1400 gpm, S/N 73880	1973	\$17,291		
G.E. Motor, 100 hp, S/N BJJ221140	1973	\$13,883	\$46,225	
Total				\$64,771
1996 Annual Report				\$64,771
Difference				\$0

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Location Property Initial CPR Set-up Spreadsheet Notes

1. The sum of the original costs of each asset should reconcile to the total dollars recorded to that account in the Uniform System of Accounts.
2. The goal is to spread all of the dollars in the plant account to the inventoried equipment. The accounting purpose is to have a retirement cost (unit costs) when the equipment is replaced or no longer useful.
 - a. If all of the equipment in a plant account is retired there should be no dollars in that account.
 - b. This system of plant accounts supports depreciation and determining the life of its equipment.
3. Inventory equipment by location.
4. Separate equipment by plant account.
5. Equipment should have an adequate description so someone years later can find it.
6. When there is similar equipment like two US Motor 100 horsepower, include in the description a unique identifier like a serial number. If there is no serial number, a numerical tag placed on the equipment can become the unique identifier.
7. If you do not know the year installed – you can make an educated estimate.
8. If there are records that support the original cost of equipment, use that if it is convenient.
9. Estimate the original cost of the remaining equipment that does not have supporting documents.
10. Spread all of the dollars in the plant account to all of the equipment found in that plant account.

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Mass Unit Property Initial CPR Set-up Spreadsheet Ex

Spreading Plant Account Dollars to 6-Inch Main Inventory

Any Utility Unit Type: Main-DI
Distribution Mains (Account 343) - DUCTILE ICON (DI)
Unit Size: 6"

<u>Year</u>	<u>Referenced</u>	<u>Units(+,-)</u>	<u>Total Units</u>	<u>Dollars(+,-)</u>	<u>Unit Cost</u>	<u>Total Amt</u>
1950	PSC Inventory	5000	5000	\$33,159.42	\$6.63	\$33,159.42
1960	PSC Inventory	6000	11000	\$61,013.33	\$10.17	\$94,172.75
1970	PSC Inventory	7000	18000	\$89,751.49	\$12.82	\$183,924.24
1980	PSC Inventory	8000	26000	\$238,158.31	\$29.77	\$422,082.54
1990	PSC Inventory	9000	35000	\$374,038.23	\$41.56	\$796,120.77
2000	PSC Inventory	10000	45000	\$504,023.15	\$50.40	\$1,300,143.92
2010	PSC Inventory	11000	56000	\$945,117.09	\$85.92	\$2,245,261.01
2011	PSC Inventory	1250	57250	\$110,162.95	\$88.13	\$2,355,423.96
2012	PSC Inventory	1500	58750	\$144,575.06	\$96.38	\$2,499,999.02

Mass Property Initial CPR Set-up Spreadsheet Notes

1. The sum of the original costs of each asset should reconcile to the total dollars recorded to that account in the Uniform System of Accounts.
2. The goal is to spread all of the dollars in the mass plant account to the inventoried equipment. The accounting purpose is to have a retirement cost when the equipment is replaced and no longer useful.
3. Mass property includes: mains, hydrants and services. Meters could be included but because of their short life, 20 years, utilities usually have records of meter retirement costs.
4. Property units for mass property accounts are categorized by size and material. For example you can have a unit of property for 6-inch ductile iron main and another unit of property for 6-inch plastic main.
5. Inventory mass unit equipment by maps, preferably digital maps.
 - a. Maps provide the location requirement for mass property units.
 - b. Maps should have the year the unit was installed.
 - c. If the year installed is not known the utility can estimate the year that a neighborhood was installed.
 - d. Estimated years of installation can be made in blocks of years. For example vintages can include; 1950 and prior, 5 or 10 year increments.

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6. The above table and corresponding unit costs can be determined using a spreadsheet that uses a price index called the Handy Whitman Index. The index provides a time value to the unit costs and the excel spreadsheet provides an iterative process to determine a unit cost. Contact the PSC for a copy of this spreadsheet.

Asset Management

At least once a year, completed work orders should be classified according to the Uniform System of Accounts. Maintenance costs are recorded to expense accounts, cost of removal and salvage is recorded to accumulated depreciation and various investments in facilities are recorded to the appropriate plant accounts. Additions and retirements need to be summarized for each plant account.

A Continuing Property Records system is an early form of asset management, a system to maximize the value of a utility's assets. A CPR and work order system provide a uniform way to track expenditures associated with maintenance, construction of new plant and the removal and retirement of old plant. The work order system feeds into the Continuing Property Records and provides the linkage of the original cost and age to a utility's assets. The CPR combined with the operation and maintenance activity of a utility is the information needed to optimize assets.

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Why Continuing Property Records

In addition to the benefits of asset management a CPR is used in depreciation studies to ensure the utility recovers its investment over the life of the asset.

When a utility needs to increase its rates it will apply to the Public Service Commission. The final component of a utility revenue requirement is the return on Net Investment Rate Base (NIRB). NIRB is defined as gross utility financed plant less accumulated depreciation, less the regulatory liability for pre-2003 depreciation on contributed plant, plus utility materials and supplies. The rate of return expresses the utility's return on investment as a percentage of the NIRB.

Determination of rate base and rate of return are two of the most important and challenging aspects of establishing an appropriate revenue requirement. No other area of rate setting has received as much attention or been the subject of as much litigation. Continuing Property Records is the Public Service Commission's tool that allows easy verification of the utility's assets.

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Preliminary Survey and Investigation Charges

Costs incurred for periodic or recurring general studies by professional consultants which do not pertain to a particular construction project are expensed when they are incurred.

Payments made to professional consultants for specific projects are charged to Account 183, Preliminary Survey and Investigation Charges. When construction begins, the accumulated cost is reclassified to Construction Work in Progress, Account 107, as a project overhead cost.

When construction is completed, direct construction and related overhead costs are allocated to utility plant in service and maintenance work done as part of the project is charged to maintenance expenses.

If the project is abandoned, please contact the PSC for assistance. Typically, the preliminary costs are charged to Account 435, Miscellaneous Debits to Surplus, or to the appropriate operating expense account.

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Accumulated Depreciation

Accumulated depreciation is also referred to as depreciation reserve; however, establishment of a fund for ultimate replacement of plant assets is not required. Although inclusion of depreciation expense in customers' rates increases cash flow for the utility, the cash is not required by the PSC to be segregated into a special fund.

Accumulated depreciation is credited for depreciation accruals and salvage and debited for plant retirements and the cost of removing retired items from service. Salvage and cost of removal are explained below. (See depreciation expense discussion in the Expenses Section.)

Salvage is the amount received for plant retirements such as insurance recoveries which result from damage to utility property, the sale as scrap of a meter held in inventory, and the trade-in value of meters and vehicles. Salvage is credited to accumulated depreciation, even if it is realized in a year subsequent to retirement of the associated plant units.

All costs of removing plant from service are debited to accumulated depreciation. These costs include demolition of a building and transporting materials to another location, disposal of equipment, and capping a well to prevent contamination of the aquifer as required by the Wisconsin Department of Natural Resources. Generally, the large cost of dismantling an elevated water tower is not provided for in depreciation rates. It may be addressed on a case-by-case basis by contacting the PSC staff.

WATER UTILITY REFERENCE MANUAL

Amortization of General Plant Accounts

Utilities may opt to amortize general plant accounts instead of depreciating them. This includes Accounts 391, 393, 394, 395, 397, and 398.

Amortization of general plant accounts can result in cost savings because it eliminates the need to track, inventory, and retire a large amount of small items. For each of the eligible accounts, all items purchased in a given year are amortized over a fixed time period by a charge to Account 403, Depreciation Expense, and a credit to Accumulated Depreciation.

When the group of items is fully amortized, the entire group is retired from Plant in Service. Individual retirements are not recorded. Additional information on this amortization method can be obtained from the Division of Water, Compliance and Consumer Affairs.

Amortization Ranges				
Municipal Water Utilities				
05-US-106				
		Years	Percent	
Account 391 , Office Furniture and Equipment		15 - 20	5.0 - 6.7%	
Account 391.1, Computers and Other Electronic		3 - 6	16.7 - 33.3%	
	Equipment,			
Account 393, Store Equipment		15 - 20	5.0 - 6.7%	
Account 394, Tools, Shop and Garage Equipment		15 - 20	5.0 - 6.7%	
Account 395, Laboratory Equipment		15 - 20	5.0 - 6.7%	
Account 397, Communication Equipment		5 - 10	10.0 - 20.0%	
Account 397.1, SCADA Equipment		10 - 12	8.3 - 10.0%	
Account 398, Miscellaneous Equipment		15 - 20	5.0 - 6.7%	

WATER UTILITY REFERENCE MANUAL

Computer and SCADA Equipment

This category of plant includes office computer equipment and SCADA (System Control and Data Acquisition) equipment. Both are recorded in subaccounts of primary plant accounts, and both of these subaccounts are listed on separate lines in PSC annual reports. Relatively short service lives due to rapid obsolescence are reflected in the depreciation rates for this equipment.

Office computer equipment is charged to Computer Equipment, which is Account 391.1. Items such as the following should be charged to this account: processing units, terminals, printers, modems, disk drives, software programs, and furniture which have a service life similar to the equipment itself.

SCADA equipment consists of computers and related automation used in the control of plant operations. It includes computer equipment with relatively short service lives and remote terminal units with longer service lives. SCADA Equipment is charged to Account 397.1.

WATER UTILITY REFERENCE MANUAL

Meters

A meter included in the cost of utility plant can be in stock/on hand, installed at its original location, or reinstalled at a subsequent location. The purchase cost of meters and initial cost of installation are charged to Account 346, Meters, at the time of purchase.

When a meter is retired, the original purchase cost plus initial installation cost is retired from Account 346. The cost of removing and resetting meters is charged to operating expenses, as listed below.

1. Class AB utilities: Account 663, Meter Expenses.
2. Class C utilities: Account 640, Operation Labor.
3. Class D utilities: Account 600, Salaries and Wages.

WATER UTILITY REFERENCE MANUAL

Hydrants

The cost of hydrants in stock is charged to the materials and supplies inventory, which is Account 154. The cost of installing a hydrant and connecting the hydrant lead and gate valve is charged to Account 348, Hydrants. When a hydrant is retired, the original installed cost is debited to accumulated depreciation and credited to Account 348, Hydrants.

Insurance proceeds for a damaged hydrant are considered salvage if the hydrant is retired and subsequently replaced, and are therefore credited to accumulated depreciation. Insurance proceeds for a damaged hydrant which is repaired rather than being replaced are credited to the maintenance expense account which was charged with the cost of repairs.

WATER UTILITY REFERENCE MANUAL

Pumps

The cost of buildings and equipment used in a well pump house or booster pumping station are accounted for as listed below. A large utility may also choose to allocate some costs on a functional basis to Accounts 311 and 312 for source of supply plant or Accounts 331 and 332 for water treatment plant.

Account 321 - Structures and Improvements, is charged with the cost of buildings, mechanical systems for heating and lighting, an electrical substation adjacent to the building, fences, access roads and driveways.

Account 323 - Other Power Production Equipment, is charged with the cost of equipment for generating electricity during a power outage. This account is charged with the cost of gas (natural or L.P.), gasoline, combustion turbine, or diesel engine power generating equipment.

Account 325 - Electric Pumping Equipment, is charged with pumping equipment driven by electric power; including pumps, motors, electrical control panels, station meters, and piping connected to the pumps.

Account 326 - Diesel Pumping Equipment, is charged with pumping equipment driven exclusively by diesel engines; including pumps, electrical control panels, station meters, and piping connected to the pumps.

Account 328 - Other Pumping Equipment, is charged with the cost of engines used in combination with direct drive pumps per the Uniform System of Accounts.

WATER UTILITY REFERENCE MANUAL

Capitalized Interest Expense

A water utility may capitalize interest expense from the money it needs to build a large project in which construction lasts at least several months and is typically funded through the issuance of long term debt. Capitalized interest expense is a construction overhead which is allocated to primary plant accounts proportionate to direct construction costs charged to each account. Capitalized interest is referred to as allowance for funds used during construction (AFUDC) or interest during construction (IDC).

The applicable AFUDC is computed from the time bids are taken until construction is completed. For borrowed funds, the net amount to be capitalized is accrued interest expense, less the amount of interest earned from temporary investment of construction funds over the same time period as the construction. The net amount is recorded by debiting Construction Work In Progress, Account 107 and crediting Account 432, Interest Charged to Construction as AFUDC.

WATER UTILITY REFERENCE MANUAL

Revenues

Common Types of Metered Sales

For water utilities, the majority of revenue comes from metered customers, which is recorded under Account 461, Metered Sales to General Customers. The six customer classifications, and sub-accounts, used by the PSC are defined below.

- Residential (Account 461.1) – customers that have water service provided for residential or domestic purposes. Sales to multiple-dwelling buildings through a single meter serving three or more family units are classified as multifamily residential.
- Commercial (Account 461.2) – a business, not-for-profit organization, or other institution (except governmental) that provide goods or services and that takes service for non-residential purposes. Churches, private schools, private colleges and universities, co-ops, and associations are non-governmental entities and are considered commercial customers.
- Industrial (Account 461.3) – those customers engaged in the manufacture or production of goods.
- Public Authority (Account 464.4) – an agency of the local, state or federal government, or a local, state or federal entity. Since public schools are governmental, they are classified as public authority.
- Multifamily Residential (461.5) – customers taking service for a building that is intended primarily for residential or domestic purposes, has three or more dwelling units, and is served by a single water meter. This classification also includes mobile home parks that are master metered. Mixed-use commercial properties, such as apartments mixed with retail, are classified as commercial.
- Irrigation (Account 461.6) – customers that have water service provided primarily for irrigation and other outdoor uses. Irrigation is the use of water to sustain crops, lawns, or landscapes, including water used on athletic fields, parks, and golf courses. This account is used only when a utility has established a separate rate for irrigation customers.

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Unmetered sales to general service customers are reported under Account 460. The correct accounts for unmetered water sales to Residential, Commercial, Industrial, Public Authority, Multifamily Residential, and Irrigation customers are 460.1, 460.2, 460.3, 460.4, 460.5, and 460.6 respectively.

Utilities may establish additional customer classifications, subject to PSC approval. However, for reporting purposes, utilities must consolidate sales and revenue into one of the subaccounts defined above.

WATER UTILITY REFERENCE MANUAL

Other Types of Metered Sales

- Sales for Resale (Account 466) – also referred to as wholesale customers. This account is for sales to other water utilities that resell the water to other customers on a retail basis.
- Interdepartmental Sales (Account 467) – sales to other utility departments regulated by the PSC. Sales to sewer departments are included in this account if the sewer operations are regulated by the PSC; otherwise, Account 461.4 is the correct classification.
- Bulk Water Sales (Account 460 or 461) – sales to customers that usually occur through a hydrant or tank truck. If the sales are metered, Account 461 is used; if the sales are unmetered, Account 460 is used and the volume of water sold must be estimated.
- Water Utility Use (no account) – usage at a water treatment plant, for water main flushing or other utility purposes. This usage must be tracked, either by metering or by estimating, and recorded so that unaccounted water can be better calculated. Usage in parks and sewer flushing is not considered water utility usage and must be billed to the municipality.

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Metered Customers – Special Rates

Metered customers may have special situations that a utility must be aware of in order to bill them correctly and account for the revenue properly. The two most common types of special situations are seasonal customers and customers with a second meter.

- **Seasonal Customers** – A seasonal customer is one that stops its water service for a short period of time, typically several months of the year, but then resumes water service. The best examples of seasonal customers are residents that move south to a second home for the winter, small businesses that close in the winter, and parks that only use water during warm months. Although the language may vary, almost all utilities have tariffs specifying that seasonal customers are billed the service charge every billing period. If a utility bills quarterly, this means a seasonal customer is billed four service charges just like any other general service customer. Revenues from seasonal customers are recorded in Account 461.
- **Second Meters** – In some communities, residential and small commercial customers may choose to install a second meter to measure water that is not discharged to the sewer system. The customer is then billed sewer charges only on the water that is discharged to the sewer system. Typically this means a customer can avoid paying sewer charges on water that is used outside for sprinkling, washing cars or other uses. If the second meter is owned by the water utility, the customer must be charged under an approved tariff. If the water and sewer operations are both regulated by the PSC, the second meter must be owned by the water utility. The revenue collected for second meters is recorded in Account 474, Other Water Revenues.

WATER UTILITY REFERENCE MANUAL

Public Fire Protection

Wisconsin Statutes section 196.03(3)(b), effective August 1, 1988, mandates that the utility public fire protection (PFP) charge be included in the water utility bill of each customer unless the municipality adopts a resolution to pay the charge. Charges placed on customers' bills are referred to as direct PFP charges while an annual charge to the municipality is typically called a municipal PFP charge. The municipality usually obtains the money needed to pay a municipal PFP charge through property taxes.

Municipal Charge

If your municipality has adopted a resolution to pay the PFP charge, the charges are calculated as follows:

- The filed tariff sheets for a municipal water utility include a charge to cover the investment in utility plant which enables the municipality to provide PFP service. The annual charge is based upon a fixed base amount, plus possibly an adjustment for hydrants (and possibly mains) added since the effective date of the base amount. (Consult your authorized tariff sheet for the method that applies to your utility.) If you apply for a rate increase, the adjustment clause for mains and hydrants will be eliminated.
- If the utility was authorized to increase its rates during the year, the PFP charge to the municipality is prorated between the two rates. The total charge for the year is the sum of the two prorated amounts. For instance, if a rate increase was effective on May 1st, then the charge is 4/12 of the total annual amount at the old rate (for January through April), plus 8/12 of the total annual amount at the new rate (for May through December).
- The PFP charge is recorded by debiting Account 145, Receivables from Municipality, and crediting Account 463, Public Fire Protection Service.
- If the municipality makes monthly or quarterly payments during the year for PFP, the final charge may not yet be calculated since net plant additions are typically determined at year-end. In these cases, payments are based on an estimated PFP charge. At the end of the year when plant additions are completed, the PFP calculation can be trued-up to the correct amount.

WATER UTILITY REFERENCE MANUAL

Direct Charge

Where the municipality has not adopted a resolution to pay the PFP Charge, the utility may choose the PSC authorized alternative public fire protection rate design methods. A listing of these methods can be found on our web site or at <http://psc.wi.gov/utilityinfo/water/utilityTraining/fireProtection/publicFireCharge.htm>.

The utility has two options to implement initial PFP charges. Under the first option, the utility may request authorization to direct charge PFP in conjunction with an application to increase water utility general service and PFP rates. An application under this option is processed through the normal rate case procedure, including public hearing. Under the second option, the utility may file initial PFP rates developed under one of the methods previously approved.

The tariff filing will become effective no sooner than 20 days after the utility's complete tariff filing request. (This includes a copy of the customer notification.) However, the Commission may suspend the tariff on its own motion or the tariff may be suspended as a result of customer petition. A hearing will then be required to consider further the tariff filing. The Commission would not suspend the tariff on its own motion if the utility has used one of the Commission approved methods and the calculated PFP rates appear reasonable. Detailed procedures are outlined on the Commission's web page.

WATER UTILITY REFERENCE MANUAL

Other Types of Water Revenue

Utilities often collect revenues for reasons other than the sale of water. Revenues of this type, which result from operating the utility, are considered Other Operating Revenues. The most common types of Other Operating Revenues are shown below:

- Forfeited Discounts (Account 470) – charges authorized in a utility’s tariff for late payment of a utility bill or statutory penalties for delinquent accounts placed on the tax roll.
- Rents from Water Property (Account 472) – rents received for the use of land, buildings, or other property owned by the utility.
- Other Water Revenues (Account 474) – return on meters allocated to the sewer department is the most common revenue in this account. (See meter allocation discussion in the Expenses Section.) Other revenues include charges for a second meter, reconnecting service and reinstalling meters. Amounts received by a sanitary district for tax levies for operation and maintenance expenses are also recorded in this account.

WATER UTILITY REFERENCE MANUAL

Non-operating Revenue

Utilities often collect revenues for reasons that are NOT a direct result of operating the utility. These revenues are considered non-operating revenues. The types of non-operating revenues which most commonly raise questions are shown below.

- Merchandise and Jobbing (Accounts 415-416) – these accounts are used when a utility is actively engaged in selling merchandise and supplies or doing contract work for customers or others. If a utility rarely does this non-utility type of business, it is not necessary to use Accounts 415-416; Account 474 may be used instead.
- Income from Non-utility Operations (Account 417) – income from a non-regulated sewer department.
- Miscellaneous Non-operating Income (Account 421) – Contributed Plant (Donations or contributions in cash, services, or property, from states, other municipalities or other governmental agencies, individuals, and others, for construction purposes).

WATER UTILITY REFERENCE MANUAL

Frequently Asked Questions

Common Types of Metered Sales

Q1: Where do I record sales to private or parochial schools and churches?

A: These sales are recorded as commercial since private or parochial schools and churches are not governmental entities.

Q2: Where do I record sales to the post office?

A: Sales to a post office are recorded as public authority since it is a federal government agency.

Q3: How are sales to an apartment building with three or more units recorded?

A: These sales are recorded in Account 461.5 (Multifamily Residential) if water is measured through a single meter. If each unit is individually metered, each unit would be classified as a residential customer and sales are recorded in Account 461.1 (Residential).

Q4: Where are sales to hospitals and clinics recorded?

A: Sales to hospitals and clinics are recorded as commercial unless the hospital is actually run by a government agency (then public authority is the correct classification).

Q5: Where do I record water used in sewer flushing, municipal parks, municipal skating rinks, or other similar municipal locations?

A: These examples are recorded as public authority. This type of usage must be billed to the municipality as it is municipal rather than water utility usage.

Q6: Where do I record sales to a non-regulated sewer utility?

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A: Sales to a sewer utility not regulated by the PSC are recorded as public authority. (If regulated by the PSC, see Interdepartmental Sales below.)

Other Types of Metered Sales

Q7: Where do I record sales to a regulated sewer utility?

A: Sales to regulated sewer utilities are recorded in Account 467, Interdepartmental Sales.

Q8: Where do I record revenue from sales of water used to irrigate golf courses, athletic fields, parks, and similar areas?

A: If the utility has established a separate irrigation class with rates authorized by the PSC, metered irrigation sales are to be recorded in Account 461.6 and unmetered irrigation sales are to be recorded in Account 460.6.

If the utility has not established a separate irrigation class, then sales for irrigation purposes should be recorded in the subaccount corresponding to the customer's primary classification (Residential, Commercial, Industrial, Multifamily Residential, or Public Authority).

Q9: Where do I record revenue from a business that also has one or more residences upstairs and the property is served by one meter?

A: Revenue from mixed-use commercial and residential property should be recorded in Account 461.2 (Commercial). However, a residential property with a home office is not considered commercial. Revenue from these customers should be recorded in Account 461.1 (Residential).

Q10: If a new industry wants to install one or more large meters to avoid sewer charges on a portion of its usage, does some of the revenue go into Account 474?

A: No. Account 474 is used to record revenues from second meters installed only in residential and small commercial settings. These meters are typically less than 2 inches in size. In a larger setting such as a factory, all meters are treated separate, individual general service accounts and the revenue is recorded in Account 461.3 (Industrial).

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Special Situations Such As Seasonal Customers and Second Meters

Q11: If a customer moving to Florida for the winter has his or her meter removed, does he or she have to pay service charges as a seasonal customer?

A: Yes, they do. Unless the person has permanently moved from that location, he or she is still considered a customer and must pay the service charges for the period he or she was temporarily disconnected. In addition, the customer will have to pay reconnection charges when he or she returns and has the meter reinstalled. Reconnection charges are recorded in Account 474, Other Water Revenues.

Q12: If a new industry wants to install one or several large meters so it is billed sewer charges on only part of its usage, does some of the revenue go in Account 474?

A: No. The situation mentioned previously is for second meters in residential and small commercial settings. These meters are typically less than 2" in size. In a larger setting such as a factory, all meters are treated as separate, individual general service accounts and the revenue is recorded in Account 461.

Other Types of Water Revenue

Q12: Where do I record rent from an antenna on a water tower?

A: Since a water tower is utility property, rent related to this property is correctly recorded in Account 472, Rents From Water Property.

Q13: Where do I record money received from scrap metal?

A: Money received for scrap metal from something like old mains or hydrants is not considered revenue. The proper entry is a credit to Account 111.1; Accumulated provision for Depreciation of Utility Plant, Financed by Utility Operations or by the Municipality or Account 111.2; Accumulated Provision for Depreciation of Utility Plant, Contributed Plant.

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Q14: Where do I record money received from an insurance company for fire hydrant damage?

A: If the fire hydrant is **repaired**, insurance proceeds are credited to the expense account where the repair costs were originally charged.

If the fire hydrant is **replaced**, insurance proceeds are considered salvage and debited to Account 111.1; Accumulated provision for Depreciation of Utility Plant, Financed by Utility Operations or by the Municipality or Account 111.2; Accumulated Provision for Depreciation of Utility Plant, Contributed Plant.

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Expenses

Definitions

There are several factors to consider in determining whether an expenditure is capitalized to the utility plant accounts or expensed in the current year. A determination has to be made as to when the item will be used or used up. If the item will be used within one year from the date of purchase, that item should be recorded as an expense. The Uniform System of Accounts (USOA) provides guidance as to the proper accounts to use in recording a utility's expenses.

Operation and Maintenance Expenses

For Classes AB and C utilities, Operation and Maintenance expenses should be allocated on a functional basis whenever possible. For instance, all costs associated with the pumping plant for a water utility are charged to pumping expenses. Another example would be a study that pertains only to the treatment process. This study would be charged to the treatment category, rather than general expenses.

Allocation of Joint Operating Costs – Between Departments

The need may arise to allocate joint operating costs, other than meter-related expenses as described in the meter expense allocation section of this manual. The allocation of joint expenses among departments of Class AB utilities is addressed in Wisconsin Administrative Code chapter PSC 103. Classes C and D utilities may also follow these guidelines.

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Allocation of Joint Operating Costs – Between Utility and Municipality

When allocations of costs between the municipality and utility departments must be made, the following general guidelines are suggested:

1. Worker's compensation and general liability insurance are allocated proportionate to payroll charges.
2. Property insurance is allocated according to policy specifications, or proportionate to plant investment if no breakdown is indicated in the policy.
3. Computer processing costs are allocated proportionate to services provided. Although this may be difficult to calculate, a joint computer processing facility is a service department, for which a chargeable basis must be determined. For allocating cost of printing customer bills, a ratio could be developed based on the number of line items printed on the customer bill for each billing department. For programming costs, it could be the number of lines of programming code written for each department.

Municipal Labor and Labor Allocation

The municipality should charge the utility for all services and expenses of municipal employees performing work for the utility. This will ensure that the utility's accounting records reflect the total cost of operating the utility. These charges are recorded in the appropriate expense accounts and the credit is to Account 233, Payables to the Municipality. If the municipality does not require reimbursement for these expenses, then the credit would be to Account 434, Miscellaneous Credits to Surplus.

The charge for work done should be based on the actual time engaged in work for the utility, or in case that is impractical, by a time study during a representative period. The time study may be conducted for specific periods of time that are representative of the year. The time is summarized and percentages developed to apply to the annual wages of each individual performing work for the utility in determining the labor costs allocated to the utility.

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The charges should include (but not be limited to) FICA taxes, federal and state unemployment taxes, pension costs, workers compensation, hospitalization, life and other insurance, sick leave, vacation, and holiday pay.

Deferral of Expenditures and Losses

Occasionally a utility experiences unusual losses or expenses. Premature retirement losses may occur due to storm damage or water mains may prematurely deteriorate due to corrosion. Large expenses may occur when a utility undertakes major maintenance or repair projects; e.g., well rehabilitation, pump repairs, and repainting and resurfacing of water storage reservoirs, tanks, and standpipes.

The cost of painting such storage facilities has increased rapidly with current painting costs in many instances exceeding the original cost of tank construction. This often can significantly affect the overall operating results if such expenditures are expensed in the year incurred.

Under these circumstances, it is recommended that the utility apply for Commission approval to amortize the costs over the period of time such expense is applicable and normalize the impact of such expenditures. The approval pertains to accounting procedures. Recovery of costs in rates is a separate decision which is not made until the utility's next rate case.

When authorized or directed by the Commission, nonrecurring or extraordinary major expenditures or extraordinary retirements or abandonment losses, are charged to a deferred debit account, and then amortized to operating expenses over a specified period of time. The PSC's decision whether to authorize a deferral is based upon the magnitude of the amount in relation to the utility's normal level of operation and maintenance expenses. The amount to be deferred as an extraordinary retirement or abandonment loss includes costs of removal for plant retirements, but salvage and insurance recoveries reduce the amount of loss.

When applying to the Commission to record a deferral, please provide a complete explanation of the circumstances, the desired amortization period, and the detail of the amount to be deferred.

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The staff of the Division of Water, Compliance and Consumer Affairs will review the request, and if approved, will provide authorization by letter specifying the actual or estimated amount and account to be charged for the deferral. The staff will also specify the annual amount, period of time, and account to be charged with the amortization.

Examples of items that have been deferred in the past are: premature retirement losses due to storm damage, painting a water tower, and major repairs to equipment.

Depreciation Expense

Depreciation expense is an allocation of the original cost of utility plant in service, less applicable net salvage, over service lives of the related plant assets. Depreciation expense is not computed for intangible plant and land rights. A depreciation rate expressed as a percentage usually carried to one decimal place is applied to the average of beginning of year and end of year plant balances. Utilities are required to use individual rates for each primary plant account. The utility may change the rate as long as it stays within the range of rates listed in the following table (Page 6).

Accounting Treatment

The amount computed as depreciation expense is recorded in the general journal as a debit to Account 403, Depreciation Expense, and a credit to Accumulated Depreciation Account 111.1 Accumulated Provision for depreciation of Utility Plant, Financed by Utility Operations or by the Municipality.

- For utilities that charge depreciation expense on vehicles or other assets to a clearing account, the debit is to the clearing account rather than to Account 403.

- Retirements of plant assets no longer in service are recorded at original cost, by debiting accumulated depreciation and crediting the plant account.

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- Cost of removal is debited to accumulated depreciation and any salvage realized is credited to accumulated depreciation.
- Group depreciation is used for each plant account; therefore, gains and losses are not computed on retirements, because the group is considered to be depreciated as a whole, rather than on an individual unit basis.
- The only exceptions to group depreciation are unit depreciation of vehicles and power-operated equipment.

The Utility is required to depreciate contributed plant in the annual report submitted to the Public Service Commission. The depreciation on contributed plant is not allowed to be recovered by the utility in a rate case so this expense is not included in the revenue requirement and for that reason is referred to as a “below the line” expenditure. The reserve for contributed plant is Account 111.2, Accumulated Provision for Depreciation of Utility Plant, Contributed Plant.

Benchmarks

During 1996, the Commission adopted benchmark depreciation ranges for municipal water utilities, which eliminated the need for costly and time-consuming periodic depreciation studies for Class AB utilities. A review was made of the composite depreciation rates for all municipal water utilities in Wisconsin for the year 1995, to determine if this amount was at least 2.00 percent. The benchmark depreciation ranges were updated in 2000 based on a composite depreciation rate range of 2.00 to 2.50 percent. A composite rate of at least 2.00 percent may not always be achieved, such as when the balance in Account 343, Transmission and Distribution Mains, constitutes an unusually large portion of the total plant investment.

Besides simplifying the depreciation process, the purpose of benchmark ranges is to use individual account depreciation rates which achieve an overall composite rate in the range of 2.00 to 2.50 percent. This helps to maintain the financial viability of water utilities because accelerating capital recovery of plant investment increases the cash flow of utilities to provide funds for debt service

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payments and replacement of plant assets. For each plant account, there is a range of values for service life, net salvage, and the resultant depreciation rate. The midpoints of the ranges for depreciation rates are used in most instances, unless there is evidence to support using another rate; or a different rate within the benchmark needs to be used to achieve a 2.50 percent composite rate.

Contact Commission staff of the Division of Water, Compliance and Consumer Affairs if you believe your utility's depreciation rates should be revised or if you need a copy of your utility's depreciation rates.

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Depreciation Rates

Wisconsin Municipal Water Utilities
Benchmark Ranges of Depreciation Rates
Effective Date is January 1, 2008

Account Number	Account Title	Service Life		Net Salvage		Recommended Range of Deprec. Rates - Percents		Recommended Depreciation Rate
		Min	Max	Min	Max	Min	Max	
<u>Source of Supply Plant</u>								
311	Structures and Improvements	30	- 40	-15%	- 0%	2.5%	- 3.8%	3.2%
312	Collecting and Impounding Reservoirs	50	- 70	0%	- 0%	1.4%	- 2.0%	1.7%
313	Lake, River and Other Intakes	50	- 70	-5%	- 0%	1.4%	- 2.0%	1.7%
314	Wells and Springs	30	- 45	-10%	- 0%	2.2%	- 3.7%	2.9%
316	Supply Mains	50	- 75	-10%	- 0%	1.3%	- 2.2%	1.8%
317	Other Water Source Plant	20	- 25	0%	- 0%	4.0%	- 5.0%	4.5%
<u>Pumping Plant</u>								
321	Structures and Improvements	30	- 40	-15%	- 0%	2.5%	- 3.8%	3.2%
323	Other Power Production Equipment	20	- 30	-10%	- 0%	3.3%	- 5.5%	4.4%
325	Electric Pumping Equipment	20	- 30	-10%	- 0%	3.3%	- 5.5%	4.4%
326	Diesel Pumping Equipment	20	- 30	-10%	- 0%	3.3%	- 5.5%	4.4%
328	Other Pumping Equipment	20	- 30	-10%	- 0%	3.3%	- 5.5%	4.4%
<u>Water Treatment Plant</u>								
331	Structures and Improvements	30	- 40	-15%	- 0%	2.5%	- 3.8%	3.2%
332	Sand and Other Media Filtration Equipment	30	- 40	-20%	- 0%	2.5%	- 4.0%	3.3%
333	Membrane Filtration Equipment	10	- 25	-5%	- 0%	4.0%	- 10.5%	6.0%
334	Other Water Treatment Equipment	15	- 20	-5%	- 0%	5.0%	- 7.0%	6.0%
<u>Transmission and Distribution Plant</u>								
341	Structures and Improvements	30	- 40	-15%	- 0%	2.5%	- 3.8%	3.2%
342	Distribution Reservoirs and Standpipes	50	- 65	-10%	- 0%	1.5%	- 2.2%	1.9%
343	Transmission and Distribution Mains	85	- 100	-10%	- 0%	1.0%	- 1.3%	1.3%
345	Services	45	- 60	-30%	- 0%	1.7%	- 2.9%	2.9%
346	Meters	16	- 25	0%	- 0%	4.0%	- 6.3%	5.5%
348	Hydrants	55	- 75	-20%	- 0%	1.3%	- 2.2%	2.2%
349	Other Transm. and Distribution Plant	15	- 30	0%	- 0%	3.3%	- 6.7%	5.0%
<u>General Plant</u>								
390	Structures and Improvements	30	- 40	0%	- 0%	2.5%	- 3.3%	2.9%
391	Office Furniture and Equipment	15	- 20	0%	- 0%	5.0%	- 6.7%	5.8%
391.1	Computer Equipment	3	- 5	0%	- 0%	20.0%	- 33.3%	26.7%
392	Transportation Equipment	5	- 15	10%	- 25%	6.7%	- 20.0%	13.3%
393	Stores Equipment	15	- 20	0%	- 0%	5.0%	- 6.7%	5.8%
394	Tools, Shop and Garage Equipment	15	- 20	0%	- 0%	5.0%	- 6.7%	5.8%
395	Laboratory Equipment	15	- 20	0%	- 0%	5.0%	- 6.7%	5.8%
396	Power Operated Equipment	10	- 20	10%	- 25%	5.0%	- 10.0%	7.5%
397	Communication Equipment	5	- 10	0%	- 0%	10.0%	- 20.0%	15.0%
397.1	Communication Equipment - SCADA	10	- 12	0%	- 0%	8.3%	- 10.0%	9.2%
398	Miscellaneous Equipment	15	- 20	0%	- 0%	5.0%	- 6.7%	5.8%

NOTE 1: In the event any class of plant shall become fully depreciated by the use of these rates with due consideration for net salvage, if any, then no further accrual for such class of plant shall be made.

NOTE 2: The net salvage percentages listed with a negative sign indicate a negative net salvage.

NOTE 3: The recommended **Total Utility Composite** depreciation rate range is **2.0% to 2.5%**.

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Property Tax Equivalent

Wisconsin Statutes section 66.0811(2) authorizes a municipality to levy a tax equivalent on a utility and gives the municipality the discretion to impose a lower payment. The statute requires that the payment be the higher of the current year's calculation or the amount computed in 1994, unless the municipality authorizes a lower payment.

Wisconsin Administrative Code Chapter PSC 109 provides for the following: definitions, computation of the tax equivalent for municipal utilities, exclusions (property outside the corporate limits), and exemptions from the tax equivalent (sewer utilities and town sanitary districts). The tax equivalent for municipal utilities is computed as follows:

1. Total property is utility plant in service, plant held for future use, and construction work in progress; plus materials and supplies at January 1; less plant outside corporate limits.
2. Total taxable property is total property (step 1) multiplied by the assessment ratio (provided to the local municipal treasurer by the Department of Revenue each year).
3. Net local and school tax rate is the sum of local, school, and vocational tax rates, after adjustment for the state tax credit.
4. Tax equivalent is total taxable property (step 2) multiplied by the net local and school tax rate (step 3).
5. The tax equivalent must be at least equal to payments made on the property for taxes levied in 1994 and payable in 1995, unless the governing body of the municipality authorizes a lower payment. In other words, it is the higher of the amount calculated in Step 4 or the amount levied in 1994, unless the governing body of the municipality authorizes a lower payment amount.

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The tax equivalent is recorded by debiting Taxes (Account 408) and crediting Accrued Taxes (Account 236). If the municipality waives payment, the amount included in Account 236 should be credited to Account 434, Miscellaneous Credits to Surplus.

- Account 236, Accrued Taxes, should be reviewed at year-end to determine if the items in this account, including the tax equivalents, should be transferred to Payable to Municipality (Account 233) or Advances from Municipality (Account 223).
- Account 236 is used to track credits and debits during the current year. If the utility will not be making payments to the municipality for the tax equivalent or other types of taxes until the following year, it is more appropriate to transfer the amounts to Account 233.
- Amounts which will not be fully repaid for several years should be transferred to Account 223.

Meter Expense Allocation

If the sewer department bases its charge for utility service upon a volume charge, which is determined from the reading of the water meter, the water utility must charge the sewer department for its share of all meter-related expenses. In this situation, both the water utility and the sewer department derive equal benefit from the reading of the water meters. This applies even if the sewer department is not regulated by the Commission.

Meter-related expenses include meter maintenance, expenses incurred in the daily operation of meters, meter reading expenses, local and school tax on meters, and return on net investment in meters. Payroll overheads, such as social security taxes and pension and benefits expenses applicable to the labor charged to the meter-related expenses, are also included.

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When calculating the rate of return on net investment in meters, the authorized rate of return on rate base from the most recent rate order is used. To calculate depreciation expense, the certified or authorized depreciation rate is multiplied by the average plant investment in Account 346, Meters.

Reimbursements of costs received from the sewer department are credited to the appropriate expense accounts, and the return on net investment in meters is credited to Account 474, Other Water Revenues as listed below. In the first four categories, Account 408, Taxes, is included for social security taxes.

Accounts for Allocating Meter Expenses				
<u>Description</u>	<u>Water – Credits</u>			<u>Sewer - Debits</u>
	<u>Class AB</u>	<u>Class C</u>	<u>Class D</u>	
Removing, resetting, testing & inspecting meters	408, 663, 926	408, 640, 926	408, 600, 686	834, 854
Maintenance of meters & meter testing equipment	408, 676, 926	408, 653, 926	650, 686	834, 854
Labor & materials used in reading meters	408, 902, 926	408, 901, 903, 926	408, 680, 681, 686	842, 854
Labor & materials used in customer billing, accounting, & collecting	408, 901, 903, 926	408, 902, 903, 926	408, 680, 681, 686	840, 854
Depreciation expense for Account 346, Meters	403	403	403	403
Local & school tax equivalent on meters	408	408	408	408
Return on net investment in meters	474	474	474	856

WATER UTILITY REFERENCE MANUAL

Frequently Asked Questions

Q1: How is the cost of removing and resetting meters recorded?

A: The cost of removing and resetting meters is charged to operating expenses as follows:

- a. Class AB utilities: Account 663, Meter Expenses.
- b. Class C utilities: Account 640, Operation Labor.
- c. Class D utilities: Account 600, Salaries and Wages.

Q2: Is it permissible to charge to the various operating accounts that portion of social security and unemployment benefit taxes which relates to the labor charged to various operating accounts?

A: Social security, unemployment benefit and other forms of payroll taxes, to the extent applicable to operating payrolls, are included in Account 408, Taxes, and are not distributed over the various accounts to which the payroll was charged.

Portions of taxes applicable to construction work in progress are distributed directly or through clearing accounts to the appropriate utility plant accounts. Likewise, any such taxes applicable to non-utility operations are charged to the appropriate non-utility account.

Q3: Where is the PSC remainder assessment charged?

A: The PSC remainder assessment is considered a tax and charged to Account 408, Taxes.

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Q4: Where are water monitoring and testing expenses recorded?

- A:**
- a. Class AB utilities: Account 642, Operation Labor and Expenses.
 - b. Class C utilities: Account 632, Operation Supplies and Expenses.
 - c. Class D utilities: Account 640, Supplies and Expenses.

Q5: Where do you record expenses related to the Diggers Hotline?

A: Expenses related to the Diggers Hotline usually consist of labor and material costs. The labor cost of personnel going out to mark locations is the highest cost item. These labor and material costs are accounted for as follows:

- a. Labor:
 - 1. Class AB Utilities: Account 665, Miscellaneous Expenses.
 - 2. Class C Utilities: Account 640, Operation Labor.
 - 3. Class D Utilities: Account 600, Salaries and Wages.
- b. Materials:
 - 1. Class AB Utilities: Account 665, Miscellaneous Expenses.
 - 2. Class C Utilities: Account 641, Operation Supplies and Expenses.
 - 3. Class D Utilities: Account 640, Supplies and Expenses.

Q6: Where do you record training expenses?

A: General training, conference, and seminar expenses get charged to Account 926, Employee Pensions and Benefits. Training costs related to a specific function such as for pumping station employees, whether in-house or in attendance at seminars are charged to the following accounts:

- a. Class AB utilities: Account 626, Miscellaneous Expenses.
- b. Class C utilities: Account 623, Operation Supplies and Expenses.
- c. Class D utilities: Account 640, Supplies and Expenses.

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Q7: Where do general labor costs get charged?

- A. Labor costs for general administrative purposes and for time not chargeable directly to a particular operating function are classified as administrative and general salaries. The costs are charged to the following accounts:
1. Classes AB and C utilities: Account 920.
 2. Class D utilities: Account 680.

Q8: Where do amounts paid to regulatory agencies get charged?

A: Fees, expenses, and other assessments paid to government regulatory agencies are accounted for as follows.

1. The PSC remainder assessment, which is billed to each utility annually to cover costs of utility regulation not identified with specific services or formal cases, is charged to Account 408, Taxes.
2. Costs directly related to formal cases before the PSC, Department of Natural Resources (DNR), or other regulatory commissions are charged to Regulatory Commission Expenses as listed below.
 - a. Classes AB and C utilities: Account 928.
 - b. Class D utilities: Account 688.

Q9: Where do fees for professional services get charged?

A: Fees and expenses of professional consultants, including payments to accountants, attorneys, engineers, management consultants, and negotiators, are accounted for as listed below.

1. Professional services related to formal cases; i.e., rate increases, depreciation studies, construction authorizations before the PSC, DNR, or other regulatory commissions, are charged to Regulatory Commission Expenses as listed below.
 - a. Classes AB and C utilities: Account 928.
 - b. Class D utilities: Account 688.

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2. Costs not related to actual and proposed construction or formal cases before regulatory bodies are charged to Outside Services Employed as listed below.
 - a. Classes AB and C utilities: Account 923.
 - b. Class D utilities: Account 682.

3. Costs related to preliminary surveys, plans, and investigations made for a specific project are accounted for as listed below. (For more information, please see Section 2; Utility Plant and Accumulated Depreciation, Preliminary Survey and Investigation Charges.)
 - a. Class AB, C and D utilities: Account 183, Preliminary Survey and Investigation Charges.

4. When construction begins, the cost is an overhead cost, and is reclassified to Construction Work in Progress, as listed below.
 - a. Classes AB, C and D utilities: Account 107, Construction Work in Progress.

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Other Balance Sheet Issues

Debt/Equity Ratios

A municipal capital structure is generally considered to be favorable if it has at least 50 percent earning equity and less than 50 percent debt. The Commission cautions that a high percentage of debt does not provide the degree of financial integrity that is required over the long term, and it is recommended that the high debt ratios be reduced to reasonable levels as soon as practical. Timely filing for needed rate increases will help to improve this situation. An effective tool to assist in keeping rates current is the simplified rate case (SRC) filing option. The SRC provides a quick and easy means of gaining an inflationary increase on an annual basis when basic eligibility criteria are met. It can help to build and maintain an improved capital structure. A favorable capital structure is beneficial when borrowing from lending institutions.

Debt Refinancing

Occasionally, one long-term debt issue is redeemed before maturity and replaced by a different long-term debt issue. This is typically done when the debt can be refinanced at a lower interest rate. Usually, the utility has debt discount, debt issuance expense, or premium paid, related to one or both of the issues. There are several ways to account for these amounts.

1. The utility may record by immediate write-off any unamortized amounts relating to the refinanced issue and charge Account 434, Miscellaneous Credits to Surplus, or Account 435, Miscellaneous Debits to Surplus. No PSC approval is required for this method.

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2. The utility may proceed to amortize by equal monthly or annual charges, from the date of refunding, the remainder of charges associated with the refunded bonds, over a period not longer than that in which the saving in net annual interest and amortization equals the remainder of charges to be amortized. This is called the revenue neutral method.

Under the revenue neutral method, the savings of interest costs due to refinancing are exactly offset by the amortization of the premium. PSC approval is not required for this method.

3. The utility may amortize the charges associated with the refunded debt using a different method, such as GASB 23 method. However, this method must be requested in conjunction with a formal PSC rate case proceeding. Until a rate order is issued, the revenue neutral method must be used for each affected funding issue.

Questions and Answers:

Accounts Receivable

Q1: Should all receivables from the municipality be reported in Account 145?

A: If amounts are to be received within the current year, they are reported in Account 145, Receivables from Municipality. If amounts are to be repaid, over a period longer than one year, they are reported in Account 123, Investment in Municipality. If it is determined that amounts are not to be repaid, they are charged to Account 435, Miscellaneous Debits to Surplus.

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Q2: How should tax levy funds be reported?

A: If the tax levy funds are received for payment of debt principal, they are recorded in Account 200, Capital Paid by Municipality. If tax levy funds are received for interest payments associated with the debt, they are recorded in Account 421, Miscellaneous Non-operating Income. Tax levy funds intended for a sanitary district's operation and maintenance expenses are recorded in Account 474, Other Water Revenues. If any of the tax levy funds are intended for payment of the Public Fire Protection charge, they are reported in Account 463, Public Fire Protection Service.

Q3: If water main assessments are placed on the tax roll, how should they be recorded?

A: Water main assessments placed on the tax roll pursuant to Wis. Stat. § 66.0703, should be reported in Account 145, Receivables from Municipality.

Payables

Q4: Should all amounts payable to the municipality be reported in Account 233?

A: Amounts to be repaid within one year are reported in Account 233, Payables to Municipality. If the amounts are to be repaid over a period longer than one year, they are reported in Account 223, Advances from Municipality. Amounts for construction that will not be repaid are recorded in Account 200, Capital Paid In by Municipality. Other amounts determined not to be repaid should be credited to Account 434, Miscellaneous Credits to Surplus.

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Q5: Where should expenditures, such as insurance premiums and rent payments, for periods extended beyond the end of the year be recorded?

A: The portion of payment that relates to future years is reported in Account 165, Prepayments. The portion that applies to the current year would be recorded as a current year operating expense.

Q6: Where should operating expenses that are forgiven by the municipality be recorded?

A: Payables to the municipality that were for operating expenses, but are forgiven, are credited to Account 434, Miscellaneous Credits to Surplus.

Debt

Q7: Should the current portion of long-term debt be recorded in Account 231, Notes Payable?

A: Notes Payable is for indebtedness not exceeding one year from the date of issue. Therefore, the current portion of long-term debt should not be recorded in Notes Payable. The entire amount of long-term debt should be reported in Accounts 221, 223, or 224.

Q8: Where should interest payments for construction be recorded?

A: Debt financing for construction almost always requires interest payments. Whether the interest payments are recorded on a cash basis or accrual basis, they are reported in Account 237, Interest Accrued and charged to Account 427, Interest on Long-term Debt, or Account 430, Interest on Debt to Municipality. The interest expense allocated to plant accounts during construction periods is recorded as a credit to Account 432, Interest Charged to Construction.

WATER UTILITY REFERENCE MANUAL

Water Service Lateral Installations

Q9: How are the water service lateral costs associated with main extensions by a subdivision developer booked?

A: Where the main extension has been approved by the utility under the utility's Schedule X-3, Water Main Installations in Subdivisions, the subdivision developer is responsible for the water service lateral installation costs from the main through the curb stop and box. For Schedule X-3 extensions, rate schedule Cz-1 does not apply. The utility determines, from the developer, the actual cost of the extension. This is the basis for recording the utility plant additions in Account 345, Services-Contributed, and as a credit to Account 421, Miscellaneous Non Operating Income.

Q10: How does Schedule Cz-1 apply when a water service lateral is installed as part of a construction project that is special assessed?

A: Because the cost of the construction project, including the new service lateral, is being collected by the municipality through special assessments, Schedule Cz-1 does not apply. The amount recorded in Account 345, Services-Contributed and in Account 421, Miscellaneous Non Operating Income, for the water service lateral is the actual cost of the installation which is being special assessed.

Q11: What if a plumber installs the water service lateral?

A: If a plumber, or other type of contractor, installs the water service lateral through the curb stop (not part of a subdivision development or assessable utility extension), the installer will bill the utility for the service from the main through the curb stop. The utility will pay the installer the full amount and this actual cost is recorded in Account 345, Services-Contributed. The utility then bills the customer only the rate authorized in Schedule Cz-1 and records this amount in Account 421, Miscellaneous Non Operating Income.

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Contributions in Aid of Construction

Contributions in Aid of Construction (CIAC) is plant owned and used by the utility, that has an expected life in service of more than one year from the date of installation. This plant is financed by donations or contributions in cash, services or property from states or other municipalities or other governmental agencies, individuals, and others for construction purposes.

In April, 2001, the Commission ordered in Docket 05-US-105 changes in the Uniform System of Accounts that in affect eliminated Account 271, Contributions in Aid of Construction. Contributions are now recorded as revenue in Account 421, Miscellaneous Nonoperating Income. The depreciation on contributed plant is no longer an expense in establishing rates for the utility. Depreciation Expense on CIAC plant is now charged to Account 426, Other Income Deductions. A major reason for the change is to keep CIAC from being a permanent reduction to rate base.

A supplemental order in 2004 prescribed that the reclassified depreciation be placed in a deferred regulatory liability account (Account 253, Other Deferred Credits) and amortized over 20 years. The annual amortization is recorded in Account 425, Miscellaneous Amortization. For ratemaking purposes, the deferred regulatory liability account balance will be a reduction in the net investment rate base computation.

WATER UTILITY REFERENCE MANUAL

Contributions in Aid of Construction

Current Accounting Procedures (per Docket 05-US-105)

To further clarify, Contributed Plant includes plant that is financed by donations from entities other than the Utility or the Municipality. These sources could include:

- Grants, typically from state or federal agencies
- Donations from other governmental units
- Special assessments
- Impact fees
- Developer agreement donations

Plant is recorded in Plant in Service – Financed by Contributions when constructed and placed into service. As noted above, the donation is recorded in Account 421, Miscellaneous Nonoperating Income when it is received. If the financial donation is received over several years (especially the case with impact fees), the plant is recorded in one year while the donations are recorded over a several year period.

Questions and Answers

Q1: How should grant proceeds for contributions be recorded?

A: If a specific project is identified and the grant can be used only for utility related construction, then the grant is reported in 421, Nonoperating Income. The actual plant additions are recorded in Utility Plant in Service – Financed by Contributions. When a general grant is used to finance a construction project and the grant does not require grant funds to be used for utility construction only, the grant is recorded in Account 200, Capital Paid in by the Municipality and the plant additions are recorded in Utility Plant in Service-Financed by the Utility or Municipality.

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Q2: Are special assessments recorded differently if paid in cash or deferred?

A: Regardless of whether the special assessments are paid in cash, deferred, or retained by the municipality to be collected, when recorded by the utility, the assessment is credited to Account 421, Nonoperating Income.

Q3: What is the proper accounting treatment for transactions arising from tax incremental districts?

A: The utility plant installed in the district is charged to the appropriate water utility plant accounts at the cost of construction, estimated if not known.

Depending on the circumstances, the credit entry can be more complex. If the municipality paid for the costs relating to the water utility plant installed in the district, the amounts actually expended by the municipality (and not special assessed) should be credited to Account 200, Capital Paid In by Municipality. The actual plant additions are capitalized and recorded to Utility Plant in Service – Financed by the Utility or Municipality.

If there are contributions directly from states, municipalities, other governmental agencies, individuals, or others (including grant money) for construction of water plant in the district, the amount received designated for that purpose is credited to Account 421, Non-operating Income. In this case, the actual plant additions are capitalized and recorded to Utility Plant in Service – Financed by Contributions.

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Accounting for Costs of Water Conservation Programs

I. ACCOUNTS AFFECTED

Account 186.xx, Miscellaneous Deferred Debits

Account 186 shall include deferral of conservation-related costs for which the Commission has authorized escrow accounting. Conservation-related entries in this account shall be netted annually with corresponding conservation-related entries in Account 253.

Account 186 is charged with the actual conservation program costs, including costs incurred by utility personnel. This account should be used for incremental costs beyond those costs that were incurred before the initiation of the utility's conservation program.

Utilities are required to categorize conservation program costs using sub-accounts that allow for the itemization of costs by the year incurred, conservation program, and cost category.

Account 906.xx, Customer Service and Information Expenses (Class AB & C)

Account 691.xx, Customer Service and Information Expenses (Class D)

Account 253.xx, Other Deferred Debits.

These sub-accounts (Account 906 and Account 691) shall include the cost of supervision, labor, and expenses incurred in customer services, conservation, and informational activities, the purpose of which is to encourage safe and efficient use of the utility's service, to encourage conservation of the utility's service, and to assist present customers in answering specific inquiries as to the proper and economic use of the customer's equipment utilizing the service.

Account 253 shall include credits for conservation-related costs for which the Commission has authorized escrow accounting. Conservation-related activities in this account shall be netted annually with corresponding conservation-related entries in Account 186.

The amount of conservation costs approved for recovery in rates will be debited to Account 906.xx (or 691.xx for Class D utilities) and credited to Account 253.xx. These entries may represent the authorized current year program costs, the amortization of unrecovered prior year program cost accruals, or both. Utilities are required to record these amounts using sub-accounts in a way that allows for identification of the year the

WATER UTILITY REFERENCE MANUAL

cost was incurred, the specific program, and cost category.

II. IMPLEMENTATION OF CONSERVATION PROGRAMS PRIOR TO INCLUSION IN A RATE CASE.

A. Prior to a Rate Case

A utility that has received Commission approval for its conservation programs outside of a rate case should record the costs in Account 186.xx. It is the utility's responsibility to apply for rate recovery for these costs. If the utility does not request recovery of these costs within two years, these costs must be written off, unless otherwise authorized by the Commission. This provides a utility with a reasonable time within which to recover its costs and avoid the buildup of deferred costs for future rate recovery.

B. At Time of Rate Case

In evaluating conservation program costs and their recovery in rates, the Commission should consider the nature of the costs relative to what was approved as well as the overall operations of the applicant for that period in which the costs were incurred. Given that there is no question concerning recovery, a test year expense may contain the amortization associated with one or more prior years accruals in addition to the cost for the test year approved programs. The period generally established for the amortization of the prior year deferrals is 3 to 5 years.

III. IMPLEMENTATION COINCIDENT WITH A RATE CASE.

If a utility has received authorization to initiate conservation programs within a given test year, the utility should record actual expenditures appropriately categorized in Account 186.xx sub-accounts. The amount of expense approved for the test year would be recorded by debiting Account 906.xx sub-accounts (or 691.xx for Class D utilities) with offsetting credits being made to Account 253.xx sub-accounts. At the end of each year an entry should be made to net Accounts 186 and 253 so that there is a balance in either Account 186 or 253 at year-end. Future recovery of overspending differences relative to authorized versus actual expenditures will have similar time limitations and evaluation criteria as indicated above for program costs incurred prior to inclusion in a rate case. The treatment of under spending is not subject to the two-year limitation, but will be subject to other evaluation criteria relative to overall operations.

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IV. ACCOUNT CROSS REFERENCE

<u>Account Description</u>	<u>Class AB & C</u>	<u>Class D</u>
Miscellaneous Deferred Debits	186.xx	186.xx
Other Deferred Credits	253.xx	253.xx
Customer Service and Informational Expenses	906.xx	691.xx

WATER UTILITY REFERENCE MANUAL

Questions and Answers

Q1: Where should the costs of a water conservation program be recorded?

A: The costs should be recorded in Account 186, Miscellaneous Deferred Debits. If the utility has not received Commission approval for its conservation program, conservation expenses should be recorded in Account 906, Customer Service and Conservation Expenses (Classes AB and C) and Account 691, Customer Service and Conservation Expenses (Class D). Conservation expenses would include toilet rebates as well as outreach-related conservation.

Q2: Where are conservation related costs reported if the utility has not received Commission approval?

A: If the utility has not received Commission approval for its conservation program, toilet rebates as well as outreach expense should be reported in Account 906, Customer Service and Conservation Expenses (Class AB and D) and Account 691, Customer Service and Conservation Expenses (Class D). The Commission will evaluate the reasonableness of the conservation-related costs during the utility's next rate case to determine whether to allow recovery through rates.