ACCOUNTING FOR COSTS OF WATER CONSERVATION PROGRAMS
BY MUNICIPALLY OWNED UTILITIES

I. ACCOUNTS AFFECTED

Account 186.xx, Misc. Deferred Debits. This account is to be charged with the actual costs and those costs incurred by utility personnel, then only to the extent that this represents the incurrence of an incremental cost level beyond that being incurred before the initiation of the conservation programs.

It is required that these costs be sub-categorized, utilizing sub-accounts, to identify the year incurred, 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.

The amounts of conservation programs 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 either the authorized current year program costs or the amortization of unrecovered prior year program cost accruals, or both. It is required that these recovery amounts be classified utilizing sub-accounts in a way which will readily identify the cost recovery as to its applicable year and program.

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

A. Prior to a Rate Case. The utility having received Commission approval for its conservation programs will 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 initiate an action to recover these costs within two years, then the oldest year’s costs should be written off. The intent here is to give the utility a reasonable time within which to recover its costs and still avoid the buildup of deferred costs for future rate recovery. In effect, a utility may have three years of accruals to amortize given the two historical years and one bridge year preceding the test year.

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.

Having received authorization to initiate conservation programs within a given test year, the utility will 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. Recovery of under spending will not have the two year limitation but will be subject to the other evaluation criteria relative to overall operations.

IV. ACCOUNT CROSS REFERENCE.

<table>
<thead>
<tr>
<th>Account Description</th>
<th>Class AB &amp; C</th>
<th>Class D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Miscellaneous Deferred Debits</td>
<td>186.xx</td>
<td>186.xx</td>
</tr>
<tr>
<td>Other Deferred Credits</td>
<td>253.xx</td>
<td>253.xx</td>
</tr>
<tr>
<td>Customer Service and Informational Expenses</td>
<td>906.xx</td>
<td>691.xx</td>
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</tbody>
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