

WATER UTILITY REFERENCE MANUAL

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

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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

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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.