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Public Service Commission of Wisconsin  
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**PUBLIC SERVICE COMMISSION OF WISCONSIN**

Investigation on the Commission's Own Motion to Revise the Uniform  
System of Accounts for Municipal Water Utilities

5-US-118

**FINAL DECISION**

This is the Final Decision to amend the Uniform System of Accounts (USOA) for Municipal Water Utilities to establish accounts for new customer classifications, clarify accounting procedures for expenses related to water conservation programs, and make other minor technical corrections. The revised USOA will replace the existing system of accounts.

**Introduction**

The Commission is adopting changes to the Uniform System of Accounts (USOA) for municipally owned water utilities. By order dated January 9, 1959, in docket 2-U-5005, the Commission prescribed the USOA for various classes of municipally owned water and electric utilities. The Commission has subsequently revised these USOAs on various dates with supplemental orders in various dockets. The most recent revision to the USOA for municipal water utilities was made on January 31, 2008, in docket 5-US-117, to consolidate past accounting decisions. ([PSC REF#: 89135](#)).

In this docket, the Commission is clarifying the accounting requirements for water conservation program expenditures, including voluntary conservation programs. In addition, the Commission is establishing accounting requirements for multi-family residential and irrigation customers.

### **Findings of Fact**

1. Recent changes to Wis. Admin. Code ch. PSC 185 (effective August 1, 2012) and changes in Commission accounting requirements related to conservation and efficiency programs have rendered the present USOA for municipal water utilities inadequate.
2. The revised USOA reasonably permits the Commission to regulate municipal water utilities without imposing unnecessary administrative burdens.
3. No hearing was required and no hearing was held.
4. It is in the public interest that the use of the presently prescribed USOA for municipal water utilities be discontinued and that the revised USOA for municipal water utilities be adopted.

### **Conclusion of Law**

1. The Commission has authority under Wis. Stat. §§ 196.02(1), 196.03(3), 196.06(1), 196.08, 196.39 and 196.40 to modify and replace the USOA for municipal water utilities.

### **Opinion**

On September 26, 2012, the Commission initiated an investigation on its own motion to consider updating the USOA for municipally owned water utilities. ([PSC REF#: 173173](#)). The proposed changes include clarifications to the accounting requirements for water conservation and efficiency programs, including voluntary programs established under Wis. Admin. Code § PSC 185.97. These changes require utilities that receive Commission approval for customer incentive programs, such as toilet rebates, to account for these expenditures using the appropriate escrow and deferral procedures. The changes also clarify the proper accounting for routine

customer information and education expenses related to water conservation programs. These changes are consistent with the accounting requirements established in the USOA for municipal electric utilities. The revised USOA for municipal water utilities is included as Appendix A.

The Commission notes that there is a growing interest among municipal water utilities in establishing conservation-oriented rates, including residential inclining block rates, seasonal rates, and irrigation-only rates. The Commission revised Wis. Admin. Code ch. PSC 185, effective August 1, 2012, to establish definitions for multi-family residential and irrigation customers to assist utilities in implementing innovative rate designs. An irrigation rate would be suitable for utilities who wish to bill customers with a second meter that is used primarily for irrigation and other outdoor uses. A separate rate for these irrigation customers would be used only if authorized by the Commission.

Under the existing USOA, multi-family residential properties with three or more units that are served by a single meter are to be classified as commercial customers. However, the Commission notes that many municipal water utilities are currently improperly classifying their existing multi-family residential customers as residential, rather than commercial. As a result, there is a need to revise the revenue accounts for municipal water utilities to include these two new customer classes.

Utilities will not be required to establish class-based rates for these new customer classes, and those that wish to maintain a single rate design for all customer classes will still be allowed to do so. Rather, utilities that wish to implement class-based rates will be able to identify sales and revenues to these types of customers, which may have different demand patterns than other customer classes. The Commission believes that these changes will alleviate confusion about the

proper classification of multi-family residential customers and will allow for a more equitable allocation of costs as part of a rate case.

The Commission also recognizes that there may be mixed-use properties that do not fall readily into one classification. These include retail properties with residential dwelling units attached. The Commission believes that it is appropriate to continue to classify properties that have some commercial purpose as commercial, even if service is also provided for residential or domestic uses. Nonetheless, there will be situations where the proper classification of a customer is unclear. The Commission directs that Commission staff establish guidance to assist utilities in the proper classification of mixed-use commercial properties.

The Notice of Investigation, along with proposed changes to the USOA and a request for comments, was mailed to all utilities and other stakeholders on September 27, 2012. The Commission received comments from Milwaukee Water Works (MWW) ([PSC REF#: 175554](#)); accounting consultant Baker Tilly Virchow Krause, LLP (Baker Tilly) ([PSC REF#: 175671](#)); and the Municipal Environmental Group (MEG), an association representing municipal water utilities ([PSC REF#: 175553](#)). The Commission appreciates the input from these stakeholders and has modified its proposal to address some of the concerns identified.

### **New Customer Classifications**

One concern expressed by the stakeholders is that the requirement to reclassify multi-family residential customers will require a large commitment of staff time and resources. While some utilities already track their multi-family residential properties, others may need to consult zoning or tax roll records to obtain the property use and type. The Commission acknowledges that some work will be required of utility staff to properly classify its accounts

and to implement changes in their billing systems. Therefore, the Commission is allowing municipal water utilities up to one year from the effective date of this Final Decision to implement these new customer classes. If a utility is able to report separately multi-family residential sales as part of its 2013 annual report, due on April 1, 2014, they can do so.

Otherwise, the utility may delay separate reporting of multi-family residential sales until its 2014 annual report, due on April 1, 2015.

### **Conservation Program Accounting**

MEG suggested that the USOA should provide a clearer distinction between costs related to voluntary conservation programs, such as customer rebates, and costs related to other conservation activities, such as public education.<sup>1</sup> MEG indicated that the proposed USOA seems to suggest that Commission approval is required for all conservation activities, and not just for voluntary program activities that the Commission authorizes under Wis. Admin. Code ch. PSC 185.97. The Commission understands MEG's concern, but disagrees that the USOA needs to reflect the distinction between voluntary programs and other conservation expenditures.

The USOA prescribes the manner in which utilities account for expenditures and revenues. It does not specify those activities for which a utility must make expenditures, nor does it distinguish between mandatory or voluntary expenses related to a utility's specific regulatory requirements. Ultimately, the Commission must determine whether a particular expense is reasonable and prudent at the time that a utility requests rate recovery during a rate case. The proposed USOA provides a mechanism for utilities to track these expenditures, as well as a mechanism for the Commission to evaluate costs related to conservation programs.

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<sup>1</sup> PSC REF#: 175553 at 2.

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Utilities may continue to spend money on conservation programs, such as customer information and education, that do not require pre-approval under Wis. Admin. Code § PSC 185.97.

However, the Commission believes that it is appropriate to account for these expenses, as well as expenses related to customer incentive and rebate programs, in the manner prescribed in the new USOA. The Commission also notes that this USOA is consistent with the method that has historically been used by municipal electric utilities to track expenditures related to energy efficiency programs, whether voluntary or not.

### **Debt Issuance Costs**

Baker Tilly suggested the Commission consider revising the USOA to reflect recent changes made by the Governmental Accounting Standards Board (GASB) that affect all municipal utilities.<sup>2</sup> The current USOA includes Account 181, Unamortized Debt Discount and Expense, which is intended to include the total discount and expense associated with the issuance of debt by the utility. This is consistent with the Generally Accepted Accounting Principles (GAAP) issued by GASB, which municipal utilities are required to follow in external financial reporting. In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement clarifies that while discounts and premiums associated with the issuance of debt should be deferred and amortized over the life of the debt, issuance costs for the debt should be expensed in the year the debt is issued. The new standard will be effective for Wisconsin municipal utilities beginning with the reporting period ending December 31, 2013.

Baker Tilly requests that the USOA for municipal water, sewer, and electric utilities be revised to clarify that debt issuance costs can be expensed to Account 428, Amortization of Debt

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<sup>2</sup> PSC REF#: 175671 at 1.

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Discount and Expense, in the year of issuance.<sup>3</sup> This would result in consistent accounting and reporting for both external and regulatory reporting. Baker Tilly notes that this change would not affect ratemaking because debt issuance costs are recorded below the line and are not directly recovered in rates.

The Commission understands that there may be some benefits associated with revising the USOA for consistency with GAAP, however, it is not convinced at this time that such consistency warrants Baker Tilly's suggested changes to the municipal water USOA. Commission staff will continue to discuss this issue with Baker Tilly and other stakeholders to ensure that any potential changes in this area make sense for all municipal utilities, not just water municipal utilities.

#### **Effective Date**

The effective date of the new USOA for municipal water utilities is January 1, 2013. Thus, the changes should be reflected in the utilities' 2013 annual financial reports, which are required to be filed with the Commission by April 1, 2014. However, municipal water utilities may delay reporting revenues and sales for multi-family residential customers separately until their 2014 annual financial reports, which are required to be filed with the Commission by April 1, 2015.

#### **Order**

1. The Commission adopts the changes to the USOA for Municipally Owned Water Utilities, included as Appendix A. A complete copy of the new USOA, that includes the changes made pursuant to this Order and appended hereto, will be made available on the Commission's

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<sup>3</sup> PSC REF#: 175671 at 2.

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web page and will replace the original and supplemental accounting orders previously prescribed by the Commission.

2. The new USOA shall become effective on January 1, 2013, and reported on 2013 annual reports due April 1, 2014.

3. Utilities may delay reporting of sales for multi-family residential customers until the 2014 annual report due no later than April 1, 2015.

4. Jurisdiction is retained.

Dated at Madison, Wisconsin, this 21<sup>st</sup> day of November, 2012.

By the Commission:



Sandra J. Paske  
Secretary to the Commission

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See attached Notice of Rights

PUBLIC SERVICE COMMISSION OF WISCONSIN  
610 North Whitney Way  
P.O. Box 7854  
Madison, Wisconsin 53707-7854

**NOTICE OF RIGHTS FOR REHEARING OR JUDICIAL REVIEW,  
THE TIMES ALLOWED FOR EACH, AND THE IDENTIFICATION  
OF THE PARTY TO BE NAMED AS RESPONDENT**

The following notice is served on you as part of the Commission's written decision. This general notice is for the purpose of ensuring compliance with Wis. Stat. § 227.48(2), and does not constitute a conclusion or admission that any particular party or person is necessarily aggrieved or that any particular decision or order is final or judicially reviewable.

*PETITION FOR REHEARING*

If this decision is an order following a contested case proceeding as defined in Wis. Stat. § 227.01(3), a person aggrieved by the decision has a right to petition the Commission for rehearing within 20 days of mailing of this decision, as provided in Wis. Stat. § 227.49. The mailing date is shown on the first page. If there is no date on the first page, the date of mailing is shown immediately above the signature line. The petition for rehearing must be filed with the Public Service Commission of Wisconsin and served on the parties. An appeal of this decision may also be taken directly to circuit court through the filing of a petition for judicial review. It is not necessary to first petition for rehearing.

*PETITION FOR JUDICIAL REVIEW*

A person aggrieved by this decision has a right to petition for judicial review as provided in Wis. Stat. § 227.53. In a contested case, the petition must be filed in circuit court and served upon the Public Service Commission of Wisconsin within 30 days of mailing of this decision if there has been no petition for rehearing. If a timely petition for rehearing has been filed, the petition for judicial review must be filed within 30 days of mailing of the order finally disposing of the petition for rehearing, or within 30 days after the final disposition of the petition for rehearing by operation of law pursuant to Wis. Stat. § 227.49(5), whichever is sooner. If an *untimely* petition for rehearing is filed, the 30-day period to petition for judicial review commences the date the Commission mailed its original decision.<sup>4</sup> The Public Service Commission of Wisconsin must be named as respondent in the petition for judicial review.

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

Revised: December 17, 2008

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<sup>4</sup> See *State v. Currier*, 2006 WI App 12, 288 Wis. 2d 693, 709 N.W.2d 520.

**APPENDIX A**

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CHANGES TO UNIFORM SYSTEM OF ACCOUNTS

FOR MUNICIPAL WATER UTILITIES

## Balance Sheet – Liabilities and Other Credits – Deferred Debit

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### 184 Clearing Accounts

The clearing accounts shall include undistributed balances at the date of the balance sheet. Balances in clearing accounts shall be substantially cleared no later than the end of the calendar year unless items held relate to a future period.

### 185 Temporary Facilities

This account shall include amounts shown by work orders for plant installed for temporary use in utility service for periods of less than one year. Such work orders shall be charged with the cost of temporary facilities and credited with payments received from customers and net salvage realized on removal of the temporary facilities. Any net credit or debit resulting shall be cleared to Account 474, Other Water Revenues.

### 186 Miscellaneous Deferred Debits

A. This account shall include all debits not elsewhere provided for, such as miscellaneous work in progress, and unusual or extraordinary expenses, not included in other accounts, which are in process of amortization, and items the proper final disposition of which is uncertain.

B. This account 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. The records supporting the entries to this account shall be maintained so that the utility can furnish full information for each deferred debit.

B.C. The records supporting the entries to this account shall be maintained so that the utility can furnish full information for each deferred debit.

**Deferred Credits**

251 Unamortized Premium on Debt

This account shall include the total of the credit balances in the discount, expense and premium accounts, for all classes of long-term debt. (See Account 181, Unamortized Debt Discount and Expense.)

252 Customer Advances for Construction

This account shall include advances by or on behalf of customers for construction that are to be refunded either wholly or in part. When the entire amount is refunded according to the agreement or rule under which the advance was made, the balance, if any, remaining in this account shall be credited to Account 421, Miscellaneous Nonoperating Income.

253 Other Deferred Credits

A. This account shall include advance billings and receipts and other deferred credit items, not provided for elsewhere, including amounts which cannot be entirely cleared or disposed of until additional information has been received.

~~B.~~ This account shall include credits for 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 186.

## Operating Revenue Accounts

### Introduction and Instructions

The Operating Revenue Accounts section provides the accounting detail for the classification and recording of revenues resulting from the sales of water, water-related services, rents, and other miscellaneous utility activity for which the utility is compensated.

1. Water sales are recorded by customer class and reflect sales to both metered and unmetered customers.
2. Public fire protection service is paid by the municipality, directly by the customer or by some combination of both. The amount shall be updated annually to reflect any expansion of the water distribution system.
3. Private fire protection service is provided to customers electing additional fire protection and is based on the size of the unmetered-connection to the utility's water main.
4. Other operating revenues including forfeited discounts, rents from water property, interdepartmental rents, and other miscellaneous water revenues shall be recorded in this section.

#### 1. Sales of Water

- 460 Unmetered Sales to General Service Customers Revenues
  - 460.1 Unmetered Sales to Residential Customers
  - 460.2 Unmetered Sales to Commercial Customers
  - 460.3 Unmetered Sales to Industrial Customers
  - 460.4 Unmetered Sales to Public Authorities
  - [460.5 Customers Unmetered Sales to Multifamily Residential](#)
  - [460.6 Customers Unmetered Sales to Irrigation Customers](#)
  
- 461 Metered Sales to General Service Customers
  - 461.1 Metered Sales to Residential Customers
  - 461.2 Metered Sales to Commercial Customers
  - 461.3 Metered Sales to Industrial Customers
  - 461.4 Metered Sales to Public Authorities
  - [461.5 Customers Metered Sales to Multifamily Residential](#)
  - [461.6 Customers Metered Sales to Irrigation Customers](#)
  
- 462 Private Fire Protection Service
- 463 Public Fire Protection Service
- 465 Other Water Sales
- 466 Sales for Resale
- 467 Interdepartmental Sales

## Account Descriptions

### 1. Sales of Water

#### 460 Unmetered Sales to General Service Customers

- A. This account shall include the billing for water supplied for residential, commercial, industrial and public authority purposes where the charge is not dependent in any way on the quantity of water delivered but is based on residential equivalent units (REU), diameter of service pipe, number of rooms, foot of frontage or other similar unit.
- B. Records shall be maintained so that the estimated quantity of water sold and the amount of revenue under each rate schedule shall be readily available.
- C. This account shall be subdivided at least as follows:

- 460.1 Unmetered Sales to Residential Customers
- 460.2 Unmetered Sales to Commercial Customers
- 460.3 Unmetered Sales to Industrial Customers
- 460.4 Unmetered Sales to Public Authorities Customers
- [460.5 Unmetered Sales to Multifamily Residential Customers](#)
- [460.6 Unmetered Sales to Irrigation Customers](#)

#### 461 Metered Sales to General Service Customers

- A. This account shall include the billing for measured water supplied for residential, commercial, industrial, and public authority purposes where the total charge is, or may be, in any way dependent on the quantity of water delivered.
- B. Records shall be maintained so that the quantity of water sold and the amount of revenue under each rate schedule shall be readily available.
- C. This account shall be subdivided at least as follows:

- 461.1 Metered Sales to Residential Customers
- 461.2 Metered Sales to Commercial Customers
- 461.3 Metered Sales to Industrial Customers
- 461.4 Metered Sales to Public Authorities Customers
- [461.5 Metered Sales to Multifamily Residential Customers](#)
- [461.6 Metered Sales to Irrigation Customers](#)

#### 462 Private Fire Protection Service

- A. This account shall include the billing for the capacity to deliver unmetered fire flows for the protection of specific facilities either privately or publicly owned, which are billed under distinct fire protection rate schedules. The cost of water