

October 30, 2012

Comments Submitted Via ERF

Ms. Sandra J. Paske, Secretary to the Commission
Public Service Commission
P.O. Box 7854
Madison, Wisconsin 53707-7854

RE: Comments on PSC Docket 5-US-118, Investigation on the Commission's Own Motion to Revise the Uniform System of Accounts for Municipal Water Utilities

Dear Ms. Paske:

The Municipal Environmental Group - Water Division (MEG - Water) appreciates this opportunity to provide comments on the Commission's proposal to revise the Uniform System of Accounts for Municipal Water Utilities. MEG - Water is an association of 58 municipal water utilities who have joined together to provide input on proposed laws and regulations that affect municipal water utilities in Wisconsin.

MEG - Water has two comments on the Commission's proposed changes. The first comment addresses the effective date for requiring the reporting of multi-family residential revenue. The second comment requests clarification of the USOA revisions related to the reporting of conservation expenses.

One-Year Phase-In for Reporting of Multi-Family Residential Revenue

In PSC Staff's September 5, 2012 Memorandum to the Commission regarding this Docket, Staff indicated that they believe that municipal water utilities will require one year to identify and properly classify their multi-family customers. *MEG - Water wholeheartedly agrees and asks that the Commission provide a one-year phase-in of the USOA changes related to multi-family customers in order to give utilities sufficient time to identify and properly classify their multi-family customers.*

Municipal water utilities are currently required to keep track of which of their customers are residential, commercial, industrial, or public authority customers -- but they are not required to keep track of whether a customer is a multi-family residential customer. In discussions with our members, we have found that many utilities do not have records on whether a customer is a multi-family residential customer. For those utilities, compliance with the USOA change will entail identifying those customers and then classifying those customers in the utility's accounting system. This means that these utilities will need to allocate staff time to get this identification and classification done. Time will be needed for utility personnel to get this extra

work done on top of their normal duties. Utilities have indicated that a one-year phase-in would provide them with sufficient time to identify and classify their multi-family residential customers.

Clarification on Accounting for Voluntary Water Conservation Programs

Staff's September 5, 2012 Memorandum to the Commission indicates revisions to the USOA were needed to reflect changes to PSC 185, which became effective August 1, 2012. The changes to PSC 185 included the adoption of PSC 185.97 which applies to voluntary water conservation rebate or incentive programs. A voluntary water conservation rebate or incentive program means a water conservation program a public utility voluntarily proposes to administer or fund that provides rebates or other direct financial incentives to customers for water-efficient products or services. A toilet rebate program is an example of a voluntary water conservation rebate program. A voluntary water conservation rebate or incentive program requires Commission approval. Conservation activities -- such as public education -- that do not provide rebates or direct financial incentives to customers do not require Commission approval, and are not programs covered by PSC 185.97.

MEG - Water asks that the proposed revisions to the USOA provide a clearer distinction between costs related to voluntary water conservation rebate and incentive programs, and costs related to other conservation activities. MEG - Water is concerned that the proposed revisions to the USOA as currently drafted seem to suggest that Commission approval is required for all conservation activities, which is not the case. Changes such as those shown on Attachment A would help to clarify the distinction between costs for voluntary water conservation rebate or incentive programs that require Commission approval, and costs for other conservation activities, such as customer education, which do not.

MEG - Water appreciates this opportunity to provide the Commission with comments on the proposed revisions to the Uniform System of Accounts for Municipal Water Utilities. We would be happy to discuss any questions that you may have about these comments.

MUNICIPAL ENVIRONMENTAL GROUP
-- WATER DIVISION

/s/ Lawrie J. Kobza

Lawrie J. Kobza
Legal Counsel

Attachment
cc: MEG - Water Members (via e-mail)

Accounting for Costs of Voluntary Water Conservation Rebate and Incentive Programs

I. ACCOUNTS AFFECTED

Account 186.xx, Miscellaneous Deferred Debits

Account 186 shall include deferral of voluntary water conservation rebate and incentive program -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 actual voluntary water conservation rebate and incentive program costs, including costs incurred by utility personnel. This account should be used only for voluntary water conservation rebate or incentive program costs. This account should not be used for conservation activities unrelated to voluntary water conservation rebate or incentive programs. incremental costs beyond those costs that were incurred before the initiation of the utility's conservation program.

Utilities are required to categorize voluntary water conservation rebate or incentive 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 (Classes 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 voluntary water conservation rebate and incentive program costs approved for recovery in rates. Costs 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 voluntary water conservation rebate and incentive program -related costs for which the Commission has authorized escrow accounting. Conservation-related costs activities in this account shall be netted annually with corresponding conservation-related entries in Account 186.

The amount of voluntary water conservation rebate and incentive program 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

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the identification of the year the cost was incurred, the specific program, and cost category.

Sub-accounts (Account 906 and Account 691) may also include costs for conservation activities, such as consumer education, that are not voluntary water conservation rebate or incentive program costs and do not require prior Commission approval.

II. IMPLEMENTATION OF VOLUNTARY WATER CONSERVATION REBATE OR INCENTIVE PROGRAMS PRIOR TO INCLUSION IN A RATE CASE.

A. Prior to a Rate Case

A utility that has received Commission approval for its voluntary water conservation rebate or incentive programs outside of a rate case should record its 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 whether to allow the recovery of voluntary water conservation rebate or incentive program costs in rates, the Commission will 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. If there are no questions concerning recovery, the test year expense may contain the amortization associated with one or more prior years' accruals in addition to the costs for any new programs approved in the test year. The period generally established for the amortization of the prior year deferrals is 3 to 5 years.

III. IMPLEMENTATION OF VOLUNTARY WATER CONSERVATION REBATE OR INCENTIVE PROGRAMS COINCIDENT WITH A RATE CASE.

If a utility has received authorization to initiate a voluntary water conservation rebate or incentive program within a given test year, the utility should record actual expenditures in the appropriate 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 Accounts 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 actual expenditures above authorized expenses will be subject to time limitations and evaluation criteria similar to those used for program costs incurred prior to inclusion in a

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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.

IV. ACCOUNT CROSS REFERENCE

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

Questions and Answers

Q1: Where should the costs of a PSC approved voluntary water conservation rebate or incentive program be recorded?

A: The costs of a PSC approved voluntary water conservation rebate or incentive program should be recorded in Account 186, Miscellaneous Deferred Debits. A voluntary water conservation rebate or incentive program is a program a public utility voluntarily proposes to administer or fund that provides rebates or other direct financial incentives to customers for water-efficient products or services. A voluntary water conservation rebate or incentive program is required to obtain Commission approval under PSC 185.97, Wis. Admin. Code. ~~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 voluntary water conservation rebate or incentive program related costs reported if the utility has not received prior Commission approval?

A: If the utility has not received Commission approval for its voluntary water conservation rebate or incentive program, ~~toilet rebates as well as outreach program~~ expenses should be reported in Account 906, Customer Service and Conservation Expenses (Classes 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.

Q3: Where are costs for conservation related activities that do not require Commission approval reported?

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A: Costs for water conservation activities that do not require Commission approval, 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).