

UNIFORM SYSTEM OF ACCOUNTS  
FOR CLASS C  
WATER UTILITIES

1996



NATIONAL ASSOCIATION OF  
REGULATORY UTILITY COMMISSIONERS

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Pursuant to action by the National Association of Regulatory Utility Commissioners, this System of Accounts is recommended to the Commissions represented in the membership of this Association for consideration and for adoption in their respective jurisdictions with such modifications only as they may deem necessary in the public interest.

## PREFACE

The 1996 Water and Wastewater Uniform systems of Accounts were proposed by the Subcommittee on Accounts of the Committee on Finance and Technology of the National Association of Regulatory Utility Commissioners (NARUC). The NARUC Executive Committee unanimously approved these uniform systems of accounts at its Summer Committee Meeting held in Los Angeles, California, July 22-25, 1996. We would like to express our appreciation to Marshall Willis of the Florida Public Service Commission for his participation in this project and the many hours he spent writing these uniform systems of accounts.

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Summary of Proposed Revisions to the  
NARUC Uniform System of Accounts for  
Class A, B & C Water and Wastewater Utilities

<u>Proposed Changes</u>	<u>Water</u>	<u>Wastewater</u>
1. Change the term "sewer" to "wastewater" where applicable to conform with the terminology currently used by the industry.	A B C	A B C
2. Increased the Class A, B & C revenue levels to account for inflation since the levels were last changed in 1984. This was done based on the same index used to set the levels in the 1984 revision. New levels are:  <div style="margin-left: 40px;">           Class A: \$1,000,000 and more,            Class B: \$200,000 to \$999,999, and            Class C: Less than \$200,000.         </div>	A B C	A B C
3. Included a monetary level for capitalizing versus expensing for all Classes as follows:  <div style="margin-left: 40px;">           Class A: \$750            Class B: \$400            Class C: \$150         </div>	A B C	A B C
4. Added definitions, accounting instructions and subaccounts to provide for the accounting for regulatory assets and liabilities.	A B	A B
5. Added a new water plant account to separately account for backflow prevention devices.	A B C	
6. Added new wastewater plant accounts to separately account for reuse facilities used to produce reclaimed water.		A B
7. Added new wastewater expense accounts to separately account for the operation of reuse facilities to produce reclaimed water.		A B

<u>Proposed Changes</u>	<u>Water</u>	<u>Wastewater</u>
8. Added new wastewater revenue accounts to separately account for revenue from reclaimed water sales.		A B
9. Added a new water expense account to separately account for Water Conservation Expenses.	A B	
10. Requires the use of subaccounts to Accounts 271 - CIAC and 272 - Amortization of CIAC to separately account for any CIAC gross-up funds received by a utility. Also adds definitions for gross-up of CIAC.	A B C	A B C
11. Added a new account to separately account for revenues collected by a utility prior to service being initiated to guarantee or reserve plant capacity.	A B C	A B C
12. Added a new water expense account to separately account for water testing expenses.	A B C	
13. Removed confusing language in Account 218 - Proprietary Capital - which indicated that the system provided language concerning the use of earned surplus accounts, which it does not.	A B C	A B C
14. Added a new wastewater plant account to separately account for power generation equipment.		A B C
15. Added additional accounts for Contractual Services to separately account for billing and professional services.	C	C

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## ACCOUNTING INSTRUCTIONS

### B. Interperiod Tax Allocation - Depreciation

The Federal Economic Recovery Tax Act of 1981 (ERTA).

ERTA provides that a utility claiming accelerated depreciation (Accelerated Cost Recovery System (ACRS)) must use a normalized method of accounting for federal income taxes on its regulated books of account and for ratemaking purposes. A utility must use the same depreciation method and lives in computing federal income tax expense when establishing cost of service for ratemaking purposes as is used in its regulated books of account, or if it uses a different method, it must make adjustments to a reserve to reflect the deferral of taxes resulting from such differences. Similarly, in order to claim investment tax credits, a utility must defer the entire balance of investment tax credits on its books of account and amortize the balance over the life of the related property.

### C. Comprehensive Interperiod Income Tax Allocation - Other Than Depreciation.

1. Certain regulatory bodies have required comprehensive interperiod income tax allocation of all material book-tax timing differences other than depreciation differences. They have reasoned that where there are timing differences between the period in which transactions affect taxable income and the periods in which they enter into the determination of pretax accounting income, the income tax effects of such transactions are to be recognized in the periods in which the differences between book accounting income and taxable income arise and in the periods in which the differences reverse using the deferred tax method. In general, comprehensive interperiod tax allocation should be followed whenever transactions enter into the determination of pretax accounting income for the period even though some transactions may affect the determination of taxes payable in a different period, as further qualified below.
2. Utilities are not required to utilize comprehensive interperiod income tax allocation until the deferred income taxes are included as an expense in the rate level by the regulatory authority having rate jurisdiction over the utility. Where comprehensive interperiod tax allocation accounting is not practiced, the utility shall include as a note to each financial statement, prepared for public use, a footnote explanation setting forth the utility's accounting policies with respect to interperiod tax allocation and

## ACCOUNTING INSTRUCTIONS

describing the treatment for ratemaking purposes of the tax timing difference by regulatory authorities having jurisdiction.

3. Should the utility be subject to more than one agency having rate jurisdiction, its accounts shall appropriately reflect the ratemaking treatment (deferral or flow through) of each jurisdiction.
4. Once comprehensive interperiod tax allocation has been initiated either in whole or in part it shall be practiced on a consistent basis and shall not be changed or discontinued without prior Commission approval.

## ACCOUNTING INSTRUCTIONS

### EXAMPLE

The following example shows how the various transactions are recorded:

- a. A utility purchases depreciable plant at a cost of \$10,000. The plant has a 10 year life with no salvage.
- b. The utility's federal taxable income from utility operations, before the effect of depreciation is \$30,000 (46% tax rate).
- c. ACRS depreciation for each year is \$800, \$1400, \$1200, \$1000, \$1000, \$1000, \$900, \$900, \$900, \$900.
- d. Book depreciation for each year using half year convention in year placed in service is: \$500, \$1000, \$1000, \$1000, \$1000, \$1000, \$1000, \$1000, \$1000, \$500.
- e. Investment tax credit is \$800 ( $\$10,000 \times 8\%$ ) in order to use 100% of the \$10,000 cost for ACRS depreciation.
- f. Deferred taxes are calculated by subtracting tax depreciation from book depreciation and multiplying by the tax rate. If tax depreciation is greater than book, debit Account 410 and credit Account 282. If book depreciation is greater than tax, debit 282 and credit 410.

	Account Number	Account Title	Debit	Credit
<hr/>				
Year 1				
1-a	409.10	Income Taxes, Utility Operating Income		
	236	Accrued Taxes	\$12,632	
				\$12,632
		To record taxes estimated to be payable for period (.46(\$30,000 - \$800)) - \$800		
1-b	410.10	Deferred Income Taxes		
	282	Accumulated Deferred Income Taxes Liberalized Depreciation	138	
				138
		To record deferral of a portion of taxes based on the difference between straight-line depreciation		

ACCOUNTING INSTRUCTIONS

Account Number	Account Title	Debit	Credit
	and ACRS depreciation (.46(\$500-\$800)). NOTE:--The deferred tax balance of \$138 would either be deducted from rate base or be included in capital structure at zero cost.		
1-c 412.10	Investment Tax Credits Deferred to Future Periods, Utility Operations	800	
255	Accumulated Deferred Investment Tax Credits		800
	To record the investment tax credits realized and deferred to future years in accordance with provisions of either the "General Rule"/Option 1 Treatment or the "Special Rule for Ratable Flow-through"/Option 2 Treatment (\$10,000 x 8%).		
1-d 255	Accumulated Deferred Investment Tax Credits	40	
412.30	Investment Tax Credits Restored to Nonoperating Income, Utility Operations		40
	To record ratable amortization over the book depreciable life of the investment tax credits deferred to future periods (.50 (\$800 (1/10))). NOTE:--The net balance of deferred investment tax credits (\$800 - \$40) would be either deducted from rate base or included in capital structure at zero cost. This treatment is followed by utilities subject to the "General Rule"/Option 1 Treatment.		
1-e 255	Accumulated Deferred Investment Tax Credits	40	
412.11	Investment Tax Credits Restored to Operating Income, Utility Operations		40
	To record ratable flow-through over the asset's book		

ACCOUNTING INSTRUCTIONS

Account Number	Account Title	Debit	Credit
	depreciable life of investment tax credits deferred to future periods (.50(\$800 (1/10))). NOTE:--The net balance of deferred ITC (\$800- \$40) would earn the overall rate of return. This treatment is followed by utilities subject to "Special Rule for Ratable Flow-through"/Option 2 Treatment.		
Year 2			
2-a 409.10	Income Taxes, Utility Operating Income	\$13,156	
236	Accrued Taxes		\$13,156
	To record taxes estimated to be payable for period .46(\$30,000 - \$1,400).		
2-b 410.10	Deferred Income Taxes	184	
282	Accumulated Deferred Income Taxes-Liberalized Depreciation		184
	To record deferral of a portion of taxes based on the difference between straight-line depreciation and ACRS depreciation (.46(\$1000- \$1400)). NOTE:--The cumulative balance of deferred taxes (\$138 + \$184) would be either deducted from rate base or included in capital structure at zero cost.		
2-c 255	Accumulated Deferred Investment Tax Credits	80	
412.30	Investment Tax Credits Restored to Nonoperating Income, Utility Operations		80

ACCOUNTING INSTRUCTIONS

Account Number	Account Title	Debit	Credit
<p>To record ratable amortization over the asset's book depreciable life of the ITC deferred to future periods (\$800 (1/10)). NOTE:--The net balance of deferred ITC (\$800 - (\$40 + \$80)) would be either deducted from rate base or included in capital structure at zero cost. This treatment is followed by utilities subject to the "General Rule"/Option 1 Treatment.</p>			
2-d 255	Accumulated Deferred Investment Tax Credits	80	
412.11	Investment Tax Credits Restored to Operating Income, Utility Operations		80
<p>To record ratable flow-through over the asset's book depreciable life of investment tax credits deferred to future period (\$800(1/10)). NOTE:--The net balance of deferred ITC (\$800 - (\$40 + \$80)) would earn the overall rate of return. This treatment is followed by utilities subject to the "Special Rule for Ratable Flow-Through"/Option 2 Treatment.</p>			
Year 3			
3-a 409.10	Income Taxes, Utility Operating Income		
236	Accrued Taxes	13,248	
			13,248
<p>To record taxes estimated to be payable for the period (.46(\$30,000-\$1,200)).</p>			
3-b 410.10	Deferred Income Taxes	92	
282	Accumulated Deferred Income Taxes - Liberalized Depreciation		92
<p>To record deferral of a portion of taxes based on the difference between straight-line depreciation and</p>			

ACCOUNTING INSTRUCTIONS

Account Number	Account Title	Debit	Credit
	ACRS depreciation (( $\$1,000 - \$1,200$ )). The cumulative balance of deferred taxes ( $\$138 + \$184 + \$92$ ) would be either deducted from rate base or included in capital structure at zero cost.		
3-c 255 412.30	"General Rule"/Option 1 Treatment utilities would record the same entry as in Year 2 for amortization of ITC. The net balance deducted from rate base or included in capital structure at zero cost would be ( $\$800 - (\$40 + 2 (\$80))$ ).	80	80
3-d 255 412.11	"Special Rule for Ratable Flow-Through"/Option 2 Treatment utilities would record the same entries recorded in Year 2 for ratable flow-through of ITC. The net ITC balance earning the overall rate of return would be \$600.	80	80
Year 4			
4-a 409.10 236	Income Taxes, Utility Operating Income Accrued Taxes	13,340	13,340
	To record taxes estimated to be payable for the period ( $.46(\$30,000 - \$1,000)$ ).		
4-b 410.10 282	No entry would be made related to deferred taxes because book and tax depreciation are equal. The cumulative balance of \$414 would continue to be deducted from rate base or included in capital structure at zero cost.		
4-c 255 412.30	"General Rule"/Option 1 Treatment utilities. Same entry as Year 2 Net deferred balance either deducted	80	80

## ACCOUNTING INSTRUCTIONS

Account Number	Account Title	Debit	Credit
	from rate base or included in capital structure at zero cost would be $(\$800 - (\$40 + 3(\$80)))$ .		
4-d 255 412.11	"Special Rule for Ratable Flow-Through"/Option 2 Treatment utilities. Same entry as Year 2. Net balance earning the overall rate of return would be \$520.	80	80
Year 5			
5-a 409.10 236	Same entry as Year 4.	13,340	13,340
5-b 410.10 282	See Year 4.		
5-c 255 412.30	"General Rule"/Option 1 Treatment utilities. Same entry as Year 2. Net ITC balance deducted from rate base or included in capital structure is \$440.	80	80
5-d 255 412.11	"Special Rule for Ratable Flow-Through"/Option 2 Treatment utilities. Same entry as Year 2. Net ITC balance earning overall rate of return is \$440.	80	80
Year 6			
6-a 409.10 236	Same entry as Year 4.	13,340	13,340
6-b 410.10 282	See Year 4.		
6-c 255 412.30	"General Rule"/Option 1 Treatment utilities same entry as Year 2. Net ITC balance deducted from rate base or included in capital structure at zero cost is \$360.	80	80

