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§ 577.1 Water plant to be recorded at original cost

(a) All amounts included in subaccounts 1301-1336 of accounts 1101 to 1104 for water plant (except as otherwise provided in account 1302, Franchises and Consents) shall be the original cost (see definition § 575.1, subd. (a) (8)) of such water plant. (See also paragraphs B and C of account 1106.)

(b) When the term cost is used in the detailed water plant accounts (1301-1336), it shall mean the original cost unless otherwise specified and shall include not only the materials, supplies, labor, services and other items consumed or employed in the construction and installation of water plant, but also the cost of preliminary studies, plans, surveys, engineering, supervision, and general expenses, which contribute directly and immediately to water plant without duplication of such cost.

(c) When the consideration given for property is other than cash, the value of such consideration shall be determined on a cash basis. In the entry recording such transaction the actual consideration shall be described with sufficient particularity to identify it. The utility shall be prepared to furnish the commission the particulars of its determination of the cash value of the consideration, if other than cash.

(d) When property is purchased under a plan involving deferred payments, no charge shall be made to the water plant accounts for interest, insurance, or other expenditures occasioned solely by such form of payment.

(e) Water plant contributed to the utility or constructed by it from contributions to it of cash or its equivalent shall be charged to the water plant accounts at cost (see § 575.1, subd. (a) (6)) to the utility (i.e., original cost less the portion thereof contributed by, or on behalf of customers). Records shall be kept so that the utility can readily furnish information as to the source, purpose, and amount of each contribution, the property to which each contribution relates, and the conditions, if any, upon which each contribution was made. Note: Amounts received for construction which are ultimately to be refunded, wholly or in part, shall be credited to account 1241, Customer Advances for Construction. When the amount to be refunded has been finally determined, the balance, if any, remaining in account 1241 shall be debited thereto and credited to the water plant accounts to which the cost of the property was charged.

§ 577.2 Additions and retirements of water plant

(a) For the purpose of avoiding undue refinement in accounting for additions to and retirements and replacements of water plant, all property shall be considered as consisting of units of property or retirement units and minor items. Units of property means those items of water plant which are sufficiently distinct or important so that when they are retired with or without being replaced by other units of the same type or use, they are accounted for by crediting the amount at which they are carried on the books to the water plant account in which included. All other items are to be considered as minor items. These retirement units should not be confused with continuing property record units filed by utilities with annual operating revenues in excess of \$ 50,000; the latter are units for which the cost will be shown separately in the continuing property records. Whenever units of property are mentioned in this system of accounts, the term refers to retirement units and not to continuing property record units. Each utility may adopt its own list of units of property for the purpose of this instruction until such time as the commission shall prescribe a list of units.

(b) Units of property. (1) When a unit of property is added to water plant, the cost thereof shall be added to the appropriate water plant account.

(2) When a unit of property is retired from water plant (i.e., is removed, sold, abandoned, destroyed or otherwise ceases to be used or useful in water service), whether or not replaced by another unit of the same type or use, the amount

at which it is carried on the books shall be credited to the water plant account in which it is included (determined in the manner set forth in subd. (d), below) and charged to the depreciation reserve provided for such property.

(c) Minor items of property. (1) When a minor item of property which does not replace a similar item is added to water plant the cost thereof shall be charged to the appropriate maintenance account and no entry shall be made in the water plant or depreciation reserve accounts.

(2) When a minor item is retired and replaced independently of the unit of property of which it is a part, the cost of replacement shall be charged to the appropriate maintenance account and no entry shall be made in the water plant or depreciation reserve accounts.

(3) When a minor item the book cost of which does not exceed \$ 50 is retired and not replaced, if the book cost of such minor item is included with or spread over one or more units of property so that it will be accounted for through the retirement of such one or more units of property, no separate credit to the water plant account shall be made; otherwise, however, the book cost of such minor item shall be credited to the appropriate water plant account and charged to account 1250, Reserve for Depreciation of Utility Plant.

Note: For example, if a given length of main, including all fittings, valves, etc., is a unit and the cost of such section of main includes the cost of the fittings, valves, etc., no separate credit to the plant accounts shall be made when a fitting or valve (the book cost of which is less than \$ 50) is retired even though not replaced. Any labor in connection with the removal shall be charged to the appropriate maintenance account, and any salvage for material recovered shall be credited to the appropriate maintenance account.

(d) Determination of amount to be credited to plant accounts. Water plant retired shall be credited to the plant accounts at the amount at which such property is included therein, including all components of construction costs, such as engineering, supervision, interest and taxes during construction, etc. The amount shall be determined from the utility's records and if this can not be done, it shall be estimated. When it is impracticable to determine the amount carried on the books for each item, due to the relatively large number or small cost thereof, the average of such items, with due allowances for any differences in size, character, and year of installation (if known), shall be used.

(e) Land retired. When land is retired the amount at which it is carried on the books shall be credited to the appropriate land account. If the land is sold, the difference between the amount at which it is carried on the books and the sale price of the land (less commissions and other expenses of making the sale) shall be credited or debited to account 1250, Reserve for Depreciation of Utility Plant.

### § 577.3 Components of construction cost

(a) The cost of construction properly includible in the water plant accounts shall include, when applicable and when actually incurred, the cost of contract work, labor, materials and supplies, transportation, engineering and supervision, law expenditures, compensation and other insurance and injuries and damages applicable to construction, taxes and interest during construction, permits and privileges, use of construction facilities, cost of keeping construction records, and other analogous elements applicable to the construction and acquisition of water plant. The costs includible in the principal items are:

(1) Contract work includes amounts paid for work performed under contract by other companies, firms, or individuals, costs incident to the award of such contracts, and the inspection of such work. The cost of work performed by the utility on projects when part of the work is performed by the utility itself and part is performed by others under contract shall be included as labor, materials, transportation, general administration, engineering services, etc.

(2) Labor includes the pay and expenses of employees of the utility engaged on construction work, and also workmen's compensation insurance, payroll taxes and similar items of expense.

(3) Materials and supplies includes the purchase price at the point of free delivery plus customs duties, excise taxes, the cost of inspection, loading and transportation, the related stores expenses and the cost of fabricated materials from the utility's shop. In determining the cost of materials and supplies used for construction, proper credit shall be made for unused materials and supplies, for materials recovered from temporary structures used in performing the work involved, and for discounts allowed and realized in the purchase of materials and supplies.

(4) Transportation includes the cost of transporting employees, materials and supplies, tools, purchased equipment, and other work equipment (when not under own power) to and from points of construction. It includes amounts paid to others as well as the cost of operating the utility's own transportation equipment.

(5) Engineering and supervision includes the portion of the pay and expenses of general officers, engineers, surveyors, draftsmen, inspectors, superintendents and their assistants applicable to construction work and the amounts paid to other companies, firms or individuals engaged by the utility to plan, design, prepare estimates, supervise, inspect, or give general advice and assistance in connection with construction work.

(6) Law expenditures includes the general law expenditures incurred in connection with construction and the court and legal costs directly related thereto.

(7) Interest during construction includes the net cost of borrowed funds used for construction purposes and a reasonable rate upon the utility's own funds when so used. Interest during construction shall be charged to the individual job upon which the funds are expended and shall be credited to account 1536, interest Charged to Construction--Credit. The period for which interest may be capitalized shall be limited to the period of construction. No interest shall be included in these accounts upon expenditures for construction projects which have been abandoned.

(8) Taxes during construction includes taxes on physical property (including land) during the period of construction and other taxes properly includible in construction costs before the facilities become available for service. Note: The cost of property includes the cost of preliminary surveys and studies and the cost of preparing plans and specifications at the time of construction for construction projects which are undertaken, and also the cost of keeping the construction accounts during the construction period, together with the cost of maps, books, files and other systems employed and permanently preserved in support of such construction costs. The cost of property does not include the cost incurred subsequent to the construction period of preparing, installing or maintaining maps, inventories, accounting and other financial records of property for use in the operation of a constructed plant, the cost of the preparation of inventories, appraisals, or other studies, nor costs incurred in the establishment or revision of accounting routine.

#### § 577.4 Work order system required (Class C utilities only)

(a) Each utility shall record all changes, such as installations, additions, retirements or replacements in water plant used wholly or partly in water operations by means of a work order or job order system. Such work orders and supporting records shall be permanently preserved.

(b) All installations, additions, retirements, or replacements shall be covered by work orders. Standing work orders may be used for projects of less than \$ 250 each, such as for mains, services, and meters.

(c) The work order shall include the following particulars:

(1) A work order number;

(2) A description and the location of the work to be done (or the purchase to be made), the dates between which such work (or purchase) is to be accomplished, the date when the work was begun and the date when finished, the estimated cost of the project, together with maps, plans, diagrams, specifications, etc., applicable to the project;

(3) The accumulated charges applicable to each particular job or project and the total cost of the completed project; the cost of removal shall also be shown. When any project involves charges to more than one account, the work order shall be so kept as to show the amount chargeable to each account. Every charge or credit on work orders shall refer to the voucher, journal, or other source from which the entry therein was made.

(d) The cost of completed projects shall be promptly transferred to the accounts to which chargeable. Note: Requirement of the use of the work order system here outlined may be suspended by order of the commission in the case of a utility which satisfies the commission that the system which it has in use for recording changes in water plant accounts gives the equivalent detail by accounts in substantially the same form. The identification of expenditures with property must be complete and clear, and the detail of the cost of each project or job must be readily available.

#### § 577.5 Transfers of property

(a) When property is transferred from one account for water plant to another, from one utility department to another, such as from water to electric, to or from accounts, 1101, Water Plant in Service, 1102, Water Plant Leased to Others, and 1104, Water Plant Held for Future Use, the transfer shall be recorded by transferring the book cost thereof from the one account, department or division to the other, and likewise any related amounts carried in the depreciation and amortization reserves and other accounts shall be transferred in accordance with the segregation of such reserves and other accounts. When property (except customers' meters) in connection with which installation costs have been incurred is physically transferred it shall be accounted for as provided in water plant instruction section 577.2.

(b) When property subject to depreciation is transferred from the water plant accounts to account 1110, Other Physical Property, the transfer shall be accomplished by crediting the water plant accounts and charging the depreciation reserve with the book cost of the item transferred; the depreciation reserve shall then be credited and account 1110, Other Physical Property, charged with the fair value of the property transferred.

#### § 577.6 Expenditures on property leased for use in water operations

(a) The cost of additions and betterments, excluding replacements by lessee of units of property installed by lessor, to property leased from others shall be charged to separate subdivisions of the water plant accounts appropriate for the class of property leased. Depreciation thereon shall be computed on a basis consistent with the duration of the lease.

(b) The cost of initial repairs and rearrangements to adapt the property for use in water operations shall be charged to a subdivision of account 1132, Prepayments, and amortized over the life of the lease through credits to that account with concurrent debits to the rent account appropriate for the class of property involved.

(c) If, in the case of leased property, replacements of units of property installed by the lessor become necessary, the utility shall make application to the commission for instructions regarding the accounting procedure to be followed and shall submit full particulars of the nature and extent of the replacements.

(d) When expenditures on property leased from others for use in water operations are relatively minor, or the period of the lease is less than one year, the cost shall be charged to the account appropriate for the cost of repairs of such plant.