**Section 650.175 Accounting Instruction 39**

Add the following material as Accounting Instruction 39, "Transition Rules – Contribution in Aid of Construction":

"A. The transition rules are to govern the accounting for Contributions in Aid of Construction. They are based on the premise that the integrity of the 'Contribution' account was preserved during the period encompassed by the Commission's ratemaking policy of allowance of depreciation expense as a recoverable operation expense on property which was the contra to the 'Contribution' account.

B. The rules provide for recording the impairment of the 'Contribution' account which occurred subsequent to the change in Commission policy of disallowance of depreciation expense on 'contributed property' for ratemaking purposes.

1. Subsidiary records will be maintained for Account 271, 'Contributions in Aid of Construction' and Account 272, 'Accumulated Amortization of Contributions in Aid of Construction.'

Subsidiary accounts of Account 271 shall segregate the Contributions in Aid of Construction recorded prior to the change in ratemaking policy from amounts recorded subsequent thereto.

The subsidiary accounts of Account 272 shall be maintained to provide a segregation of the accumulated amortization charges which relate to or correlate to the 'Contribution' segregated balances.

The 'pre' and 'post' segregation categories will coincide with the effective date of the first definitive Commission order applicable to the subject utility which applies the ratemaking disallowance policy.

2. Utilities that discontinued recording depreciation expense in their books of account subsequent to its disallowance for ratemaking purposes shall record the impairment of the 'Contribution' account for the period from date of disallowance to December 31, 1986 by debit Account 272, 'Accumulated Amortization of Contributions in Aid of Construction' and credit to the appropriate subaccount of Account 108, 'Accumulated Depreciation.'

3. Utilities that continued to record depreciation expense in their books of account subsequent to its disallowance for ratemaking shall record the impairment of the 'Contribution' account by debit to Account 272, 'Accumulated Amortization of Contributions in Aid of Construction' and credit to Account 439, 'Adjustments to Retained Earnings.' It shall cover the period from date of disallowance to December 31, 1986.

4. The amortization of the 'Pre' disallowance balance of Account 271 shall continue until it is fully amortized at which time it shall be written off against its related Account 272 balance.

5. Within six months of the effective date of this System of Accounts (83 Ill. Adm. Code 650), each utility shall submit its proposed journal entries for recording the implementation of the transition rules to the Director of Accounting of the Commission to ascertain whether the utility has complied with Accounting Instruction 39.

6. Should an impairment of the 'Contribution' account have occurred prior to the period covered by the transition rules in this Accounting Instruction, the utility shall submit its proposed journal entries to record such impairment accompanied by a complete explanation to the Director of Accounting for acceptance and approval. The Director of Accounting shall accept and approve the journal entries if an impairment has occurred and if the entries reflect the level of impairment."

(Source: Amended at 22 Ill. Reg. 11722, effective July 1, 1998)