

1. **Capital Reserve Accounting Requirements.** A Capital Reserve Account, targeted to equal the annual depreciation expense and annual amortization of the contribution in aid of construction of the Company's water system assets and equipment, shall be established, subject to the following:
 - a. All designated capital reserve fees generated from rates shall be deposited into the Capital Reserve Account. Any excess fees collected from overage rates, after deducting for any variable expenses shall be deposited in the Capital Reserve Account and shall be labeled as 'Accelerated Capital Reserve Fees.'
 - b. All Capital Reserve Account funds shall be deposited in a restricted bank account such as a separate escrow account, within thirty (30) days from receipt of such payment.
 - c. Withdrawals from the Capital Reserve Account shall be made for capital replacements and improvements only.
 - d. In accordance with Utah Administrative Rule R746-401-3A, expenditures in excess of five (5) percent of total Utility Plant in Service shall require the Company to file a report with the Commission, at least thirty (30) days before the purchase or acquisition of the asset or project, and to obtain written Commission approval before transacting such acquisitions.
 - e. Upon submission of the Annual Report to the Public Service Commission, the Company shall also provide a separate accounting of the Capital Reserve Account consisting of monthly bank statements encompassing the entire calendar year showing a series of deposits made within thirty (30) days from the receipt of rate payments for each billing cycle and withdrawals that meet requirements [REDACTED], a, b, c and d above. Such detailed accounting, including copies of bank statements and possible other sensitive information, shall be marked as "confidential."
 - f. The balance in the Capital Reserve Account shall be clearly identifiable in the financial statements as a restricted account.
 - g. In identifying a qualifying expenditure for replacement or improvements that may be made from the Capital Reserve Account, the Company shall consider the following guidelines:
 - i. Capital improvements are typically high cost items with long service lives, including, but not limited to, the distribution pipe main lines, storage reservoirs, wells, and surface water intakes. Expenditures that qualify as capital expenditures are those that extend the life of an asset, enhance its original value with better quality materials or system upgrades, or replace such assets.
 - ii. Capital improvements do not include minor expenses such as repair clamps, inventory parts and fittings, spare pieces of pipe kept to facilitate repairs, small tools, maintenance supplies such as paint or grease, service contracts, and other day-to-day supplies. Expenses for these items are properly classified as "operating and maintenance" expenses.
 - iii. Additionally, it is not appropriate to use Capital Reserve Account funds received from existing Customers for system expansion, that is, to extend main

lines to serve new areas or new Customers or to install new services. Funds for the expansion of the system should come from new development, impact fees, connection fees, assessments or other sources so that those benefiting from the improvement contribute the funds for its construction.

- h. In the event any payment from a Customer is a partial payment of any given billed invoice by the Company, that payment shall be used first to cover the fixed and variable expenses, and then to cover the Capital Reserve Fee. A reconciliation, clearly indicating the circumstances surrounding those instances when the Capital Reserve Account was not fully funded, shall be provided by the Company with the detailed 'annual accounting' of the Capital Reserve Account.
- i. The Company shall list the Customer's charge for payment to the Capital Reserve Account as a separate line item ("Capital Reserve Fee") in each billing statement.
- j. Interest accruing on funds held in the Capital Reserve Account shall become a part of the Capital Reserve Account and can only be used in accordance with this paragraph .