

ARIZONA SUPREME COURT

SAN DIEGO GAS & ELECTRIC
COMPANY,

Plaintiff/Appellee,

v.

ARIZONA DEPARTMENT OF
REVENUE, et al.,

Defendants/Appellants.

No.

Court of Appeals
No. 1 CA-TX 21-0008

Arizona Tax Court
No. TX2019-001758

PETITION FOR REVIEW

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INTRODUCTION

This case concerns the simple statutory formula for valuing property used in transmitting and distributing electricity in Arizona. Section 42-14154(B) and (G)(2) obligate the Department of Revenue (“Department”) to value plant in service¹ at its original cost less related accumulated straight-line depreciation over the property’s useful life. Straight-line depreciation is the gradual annual expensing of a property’s cost in equal increments over time until the end of the property’s life.² If a \$1,000,000 property has a ten-year estimated life, it will be depreciated (expensed) at \$100,000 per year until the end of its life. At the end of year six, the property will have \$600,000 in accumulated depreciation. Thus, in year seven, the property’s Arizona statutory full cash value would be \$400,000—the original \$1,000,000 cost less the \$600,000 in related accumulated depreciation.

For the 2020 tax year, San Diego Gas and Electric Company (“San Diego”) reported to the Department depreciation that exceeded its Arizona plant cost, resulting in a claimed full cash value for plant in service of -\$2,629,001. That is

¹ “Plant” is all property that is used or useful for transmitting or distributing electric power. [A.R.S. § 42-14154\(G\)\(8\)](#).

² The American Society of Appraisers defines straight-line depreciation as “[a]n accounting method that assumes that depreciation is dependent on the passage of time and that allocates an equal amount of depreciation to each period of time.” American Society of Appraisers, *Valuing Machinery and Equipment: The Fundamentals of Appraising Machinery and Technical Assets*, at 405-06 (2d ed. 2005).

impossible under any known depreciation regimen or authority. San Diego’s reported accumulated depreciation exceeded the plant’s cost because in addition to the property’s actual accumulated straight-line depreciation, the company included \$21,092,257.55 set aside in a separate reserve account to pay for the plant’s removal at the end of its economic life (“COR Reserve”).

The Opinion essentially holds that COR Reserve monies are lawful accumulated straight-line depreciation of plant costs, even though they inarguably are not. *San Diego Gas & Elec. Co. v. Ariz. Dep’t of Revenue*, 1 CA-TX 21-0008, [2023 WL 6978591](#) (App. Oct. 24, 2023).

This is a matter of statewide importance insofar as several (though a minority) of the approximately eighteen other transmission companies in Arizona likewise report COR Reserve monies as “accumulated depreciation” to the Department, to the ultimate detriment of other taxpayers in the many taxing jurisdictions in which transmission properties are located. The Opinion implicates hundreds of millions of dollars of property values. Review and reversal are warranted because it is simply wrong.

ISSUE PRESENTED FOR REVIEW

Are accrued COR Reserve monies lawful straight-line depreciation of plant costs under [A.R.S. § 42-14154](#)?

MATERIAL FACTS

San Diego owns transmission lines and related equipment in Arizona that run from the Palo Verde Nuclear Plant to the California border. Transmission property owners must file annual reports with the Department to assist it with valuing their properties. [A.R.S. § 42-14152\(A\)](#). The Department valued two components of San Diego’s transmission properties under [A.R.S. § 42-14154](#)—plant in service (“Plant”) and construction work in progress (“CWIP”).

San Diego reported in its 2020 tax year annual report the following amounts concerning the Arizona portion in its “Balance Sheet Data”:

Total Plant in Service (less land rights)	\$48,817,396
Plant in Service Accumulated Depreciation (less amortization for land rights)	\$51,446,185
Plant in Service Land Rights	\$4,218,191
Amortization for Land Rights	\$545,788
Construction Work in Progress	\$7,296,049

(IR 57, at 12, ¶ 6; emphases added.) Based upon this report, the Department valued San Diego’s CWIP (“Arizona CWIP”) at fifty percent of the reported cost of \$7,296,049, or \$3,648,000 (rounded down), pursuant to [A.R.S. § 42-14154\(C\)](#).

With respect to the company’s plant in service (“Arizona Plant”), the Department rejected the company’s claim that it had \$51,446,185 in accumulated straight-line depreciation relating to its \$48,817,396 in plant costs and that the resulting full cash value of its Arizona Plant was -\$2,629,001. It then presented

additional information to the Department, which the Department used in part to set the Arizona Plant's final 2020 full cash value at \$8,654,000.

San Diego appealed the Department's CWIP and Arizona Plant values to the tax court. It alleged that the value of its Arizona Plant and Arizona CWIP (collectively, the "Arizona Property") should be \$1,019,474, determined as follows:

Arizona Plant Cost	\$48,817,396
(less) Accumulated Depreciation	<u>\$51,446,185</u> -\$ 2,628,789
(plus) CWIP Value	<u>\$ 3,648,024</u>
(equals) Arizona Property's 2020 full cash value	<u>\$ 1,019,474</u>

(IR 8 [Affidavit, Ex. A].)

During discovery, the Department learned that in reaching its claimed \$51,446,185 in accumulated depreciation, San Diego had included two types of "depreciation." The first was accumulated depreciation relating to the \$48,817,396 in reported plant cost (hereafter "Life Depreciation"). (Appendix ["App."] 1; IR 57 at 24, ¶ 68.) The amount of Life Depreciation was \$30,899,927.19, which the Department considered lawful depreciation because it was accumulated depreciation relating to the Arizona Plant's cost.

The second type of "depreciation" in the amount of \$21,092,257.55, denominated "COR (Cost of Removal) Reserve," was not accumulated

depreciation of plant cost; rather, it was a reserve account of monies to be used to pay for removing the Arizona Plant at the end of its life.³ (App. 1; IR 57 at 24, ¶ 69.)

Had San Diego separately reported the Life Depreciation and COR Reserve numbers to the Department in its annual report, the Department would have removed the COR Reserve number of \$21,092,257.55 from the company's reported depreciation total and valued the Arizona Plant at \$18,463,000 (rounded)—original reported plant cost less Life Depreciation.⁴ (*Id.* at 19, ¶¶ 41-42.) The Department sought that value for the Arizona Plant at both the tax court and the court of appeals, in addition to the statutory CWIP value of \$3,648,000.

The sole alleged statutory basis for San Diego's negative value is [A.R.S. § 42-14154\(F\)](#), which provides that all terms and applications of terms are to “be interpreted according to the federal energy regulatory commission uniform system of accounts for electric and gas utilities in effect on January 1, 1989.” That

³ Reserves are monies that have been set aside for a particular purpose, such as the purchase of fixed assets, payment for repairs and maintenance, and so forth. *See* <https://www.accountingtools.com/articles/what-is-reserve-accounting.html>.

⁴ San Diego has reported COR Reserve amounts to the Department for decades, but because the combined Life Depreciation and COR Reserve numbers had never exceeded the reported plant's cost, the Department never identified the COR Reserve issue until the 2020 tax year.

uniform system of accounts allows for the recording of accumulated COR Reserve monies as “accumulated depreciation.”⁵

The Opinion held that (1) the COR Reserve monies are lawful depreciation of San Diego’s Arizona Plant, (2) the Arizona Plant’s resulting 2020 statutory full cash value is -\$2,628,789, though the 2020 full cash value would be set at \$0 because the court did not believe the Legislature intended to set values below \$0, and (3) the excess -\$2,628,789 in Arizona Plant depreciation could not be applied to lower the statutory CWIP value of \$3,648,000. (Op. ¶¶ 18-23.)

The Opinion’s COR Reserve finding is contrary to the statute’s plain mandate that the plant’s original cost be reduced only by “related accumulated . . . [straight line] depreciation.” COR Reserve monies are not accumulated straight-line depreciation relating to plant costs. Nothing in the 1989 FERC Uniform System of Accounts (“USofA”), the only “authority” that the Opinion cited to support its holding, says otherwise.

The notion that San Diego’s plant in service as of January 1, 2019, had a statutory value of -\$2,629,001—and will have a growing negative taxable value for the remainder of its useful life—is absurd on its face and violates every applicable provision of [A.R.S. § 42-14154](#). The “negative value” and \$0 value rulings also

⁵ The Federal Energy Regulatory Commission (“FERC”) allows but does not require utilities to incrementally collect future removal costs from their existing customers.

violate the Arizona Constitution's Exemptions Clause, which provides that all property in the state not exempt from taxation under the Federal and Arizona Constitutions is subject to taxation. [Ariz. Const. art. IX, § 2.](#)

REASONS TO GRANT REVIEW

I. COR Reserve Monies Are Not Lawful Depreciation of Plant Costs Under A.R.S. § 42-14154.

A. The Only Lawful Depreciation Is Accumulated Straight-Line Depreciation that Relates to the Plant's Cost.

Section 42-14154(B) prescribes the method for valuing electric transmission plant in service, with the starting point being its original cost. "Original plant in service cost" is defined as the actual cost of acquiring or constructing property, including additions, retirements, adjustments, and transfers. [A.R.S. § 42-14154\(G\)\(7\).](#)

In determining the plant's full cash value, the Department must reduce the plant-in-service cost "by related accumulated . . . depreciation." A.R.S. § 42-14154(B)(2)(a). Consistent with the requirement that depreciation must be "related" to the plant's costs, A.R.S. § 42-14154(G)(2) defines "depreciation" as "straight line depreciation over the useful life of the item of property." A.R.S. § 42-14154(G)(2).

Straight-line depreciation is a simple concept, with a simple formula determining the annual depreciation amount: $\text{cost} \div \text{economic life}$.⁶ This Court acknowledged this formula in *Arizona Department of Revenue v. Trico Electric Cooperative, Inc.*, 151 Ariz. 544 (1986), wherein the Court explained the straight-line depreciation regimen for two types of electric utility properties as follows:

For example, if property purchased for \$1,000,000 is depreciated over a 10-year life by an investor-owned utility and over a 33 1/3 year life by a cooperative utility, the full cash value after five years will be \$500,000 [fifty percent in accumulated depreciation] on investor-owned property and \$850,000 [fifteen percent in accumulated depreciation] on cooperative-owned property.

Id. at 547. Neither San Diego nor the Opinion dispute Petitioners' explanation of how straight-line depreciation works. San Diego's sole affiant⁷ supporting its summary-judgment motion testified that no straight-line depreciation regimen would ever result in depreciation that exceeded an item's cost. (IR 57, ¶ 71.)

The question under A.R.S. § 42-14154(B)(2)(a) is whether accumulated COR Reserve monies, recorded in an accumulated depreciation account per FERC guidelines, is related accumulated straight-line depreciation of plant cost. To ask the question is to answer it. Accumulated COR Reserve monies are not

⁶ <https://www.investopedia.com/terms/s/straightlinebasis.asp>.

⁷ James Asay, Director of Corporate Tax at Sempra Energy, San Diego's parent company.

accumulated straight-line depreciation of plant costs, and COR Reserve monies are therefore not lawful depreciation under [A.R.S. § 42-14154](#).

B. The FERC Uniform System of Accounts Does Not Provide that COR Reserve Monies Are Accumulated Depreciation of Plant Costs.

The effects of San Diego’s claim and the Opinion’s holding are best demonstrated hypothetically. Assuming a plant’s original cost is \$50 million and the future removal costs for that plant are \$30 million, the total possible accumulated “depreciation” related to those two costs under the Opinion would be \$80 million. When a company reports only the \$50 million plant cost to the Department but then reports accumulated depreciation relating to the \$80 million in plant and future removal costs, the accumulated depreciation will at some point equal and then begin to exceed the \$50 million plant cost. For a hypothetical plant with a ten-year life and with ten years of COR reserve accumulation, the Opinion’s consequences are as follows:

	<u>Plant Costs</u> \$50,000,000	<u>Future Removal Costs</u> \$30,000,000
YEAR	LIFE DEPRECIATION	COR RESERVES
1	\$5,000,000	\$3,000,000
2	\$10,000,000	\$6,000,000
3	\$15,000,000	\$9,000,000
4	\$20,000,000	\$12,000,000
5	\$25,000,000	\$15,000,000
6	\$30,000,000	\$18,000,000

7	\$35,000,000	\$21,000,000
8	\$40,000,000	\$24,000,000
9	\$45,000,000	\$27,000,000
10	\$50,000,000	\$30,000,000

In year 7 (as with this case’s 2020 tax year), accumulated Life Depreciation and accumulated COR Reserve monies begin to exceed plant cost. In year 9, per the Opinion, the statutory formula yields a full cash value of -\$22,000,000 (\$50,000,000 in plant cost less \$72,000,000 in combined Life and COR Depreciation).

The sole purported statutory basis for this is [A.R.S. § 42-14154\(F\)](#), which provides that all terms and applications of terms are to “be interpreted according to the federal energy regulatory commission uniform system of accounts for electric and gas utilities in effect on January 1, 1989.” (Op. ¶¶ 16-18.) Three FERC provisions that the Opinion cited provide as follows:

- FERC Account No. 101(a)(10) defines “cost of removal” as “the cost of demolishing, dismantling, tearing down or otherwise removing service property, including the cost of transportation and handling incidental thereto.” (Op. ¶ 17.)
- FERC Account No. 108, Accumulated Provision for Depreciation of Service Company Property, expressly includes the “cost of removal.” (*Id.*)
- FERC Order No. 631 provides: “removal costs . . . are included as a component of the depreciation expense and recorded in accumulated depreciation.” (*Id.*)

From these, the Opinion concludes that because San Diego reports its accrued COR Reserve monies to FERC under “accumulated depreciation,” COR Reserve is lawful accumulated straight-line depreciation of plant costs under [A.R.S. § 42-14154\(B\)\(2\)\(a\)](#). (Op. ¶ 18.)

The holding flips A.R.S. § 42-14154’s valuation method as well as the general statutory construction rules on their heads, giving all import to the general phrase “accumulated provision for depreciation” in [A.R.S. § 42-14154\(B\)\(2\)\(a\)](#), but none to the Legislature’s definition of “depreciation” as *related* accumulated straight line depreciation over the property’s useful life. *City of Phoenix v. Superior Ct.*, [139 Ariz. 175, 178](#) (1984) (stating that special or specific statutory provisions will usually control over general ones).

As Petitioners’ Reply Brief discussed (at 42-49), the USofA simply sets forth an accounting, reporting, and recordkeeping regimen for utilities to follow.⁸ FERC allows utilities to build up a reserve account to fund future plant removal and to account for those monies under “accumulated depreciation,” but that has no relevance to Arizona’s statutory valuation formula for transmission property—cost less the accumulated straight-line depreciation that relates to that cost. Accumulated COR Reserve monies are no more “related accumulated straight-line

⁸ Applicable portions of the 1989 FERC USofA are attached as App. 2.

depreciation” of Arizona Plant costs than the accumulated Life Depreciation relating to San Diego’s transmission plant in California, which is in the billions.⁹

In that regard, the Opinion fails to identify any FERC provision bearing on the Legislature’s use of the phrase “*related* accumulated provision for depreciation” in [A.R.S. § 14154\(B\)\(2\)\(a\)](#) (emphasis added), and that is because none exists. The USofA is thus irrelevant to the issue before the Court. *See generally, SFPP, L.P. v. Ariz. Dep’t of Revenue*, 210 Ariz. 151, 155 n.4, ¶ 18 (App. 2005) (“We do not interpret the legislature’s guidance in A.R.S. § 42-14204(G) as requiring that we base our final conclusion on the FERC USOA definitions if those definitions do not, as here, provide a definitive resolution.”)

Not even Life Depreciation would be lawful (related) depreciation if San Diego did not report the applicable plant cost to the Department. If San Diego reported \$50,000,000 in Arizona plant costs and \$40,000,000 in accumulated Life Depreciation to FERC, but reported only \$25,000,000 in plant costs to the Department for valuation purposes, it could not claim and receive \$40,000,000 in accumulated depreciation under A.R.S. § 42-14154. The only lawful Life

⁹ San Diego’s Comparative Balance Sheet for its entire system for the end of 2018, as set forth in its annual Form 1 filed with FERC, reports \$20,491,384,467 in “Utility Plant” costs and \$6,787,171,251 in “Accumulated Provision for Depr., Amort. Depl.” (IR 60 [Ex. 5, at 110].) Per the Opinion, San Diego should presumably be entitled to \$6.787 billion in accumulated depreciation because it reported \$6.787 billion in “accumulated depreciation” on its FERC Form 1.

Depreciation under A.R.S. § 42-14154 would be that that relates to the \$25,000,000 in plant cost reported to the Department.

San Diego's sole witness supporting its claim, Mr. Asay, underscored this simple and obvious principle when he testified as follows:

Q:What import, if any, do you give to the word "related" [in the 'applicable valuation statute in Arizona']"?"

A:The statute says the department shall determine the original plant in service cost. The original plant in service cost shall be reduced by the related accumulated provision [f]or depreciation.

So in that context, I would say the word "related" refers back to the original plant in service cost that is determined by the Department.

....

So you're matching apples with apples. You have a plant in service cost, and there is a [sic] accumulated provision for depreciation that is specifically tied to that original plant in service cost. So that's what related means in this context, I believe.

(IR 60 [Ex. F, at 18:5-23]; emphasis added.) The explanation could not be any clearer. COR Reserve monies are not accumulated straight-line depreciation of plant cost and are therefore not lawful depreciation.¹⁰

¹⁰ If A.R.S. § 42-14154 required the Department to value future removal costs and if San Diego reported those costs, COR Reserve monies relating to those costs would be lawful accumulated depreciation of *those* costs.

C. Section 42-14154(B)(2)(b) Supports Petitioners.

The Opinion’s \$0 Arizona Plant value is not only contrary to [A.R.S. § 42-14154\(B\)\(2\)\(a\)](#)’s valuation formula, it is also contrary to subsection (B)(2)(b). That subsection specifies one instance in which the full cash value of plant in service can go to \$0. Specifically, [A.R.S. § 42-14154\(B\)\(2\)\(a\)-\(b\)](#) provide that the Department shall value transmission property by first determining the “original plant in service cost” and then reducing that amount by the following:

(a) The related accumulated provision for depreciation.

(b) The reduction in value caused by a state or federal governmental order prohibiting total or partial physical use of electric transmission . . . property for periods of more than six months. *Any reductions in value caused by a total or partial prohibition of the physical use of the property shall not exceed the cost of the restricted property less accumulated depreciation.*

(Emphasis added.)

The Legislature prescribed a simple valuation formula for plant in service that starts with its initial cost and then incrementally lowers that cost on a straight-line basis. The only event that can interrupt that valuation regimen—and the only event that can lead to a \$0 value before the end of the plant’s “useful life”—is a federal or state order that totally or partially prohibits using the property for more than six months. [A.R.S. § 42-14154\(B\)\(2\)\(b\)](#). If \$50,000,000 in plant cost has been depreciated by eighty percent (\$40 million) under the straight-line method, a

governmental shut-down order can reduce the plant's value by no more than \$10 million.¹¹ Section 42-14154(B)(2)(b) thus further establishes that the Legislature adopted the straight-line depreciation regimen that Petitioners articulated and that *Trico*, 151 Ariz. at 547, described, and not the “negative value” scenario that the Opinion created.

D. The Opinion Is Materially Inconsistent.

The Opinion states that a court's job is to determine legislative intent. (Op. ¶ 12.) It then holds that the Legislature intended to include accumulated COR Reserve monies as statutory depreciation of plant cost, causing the statutory full cash value of a transmission plant to go increasingly negative over the final years of its life. (*Id.* ¶¶ 16-18.) In its next breath, the Opinion states that the court is “not persuaded that the legislature intended to permit a negative full cash value valuation for a plant in service.” (*Id.* ¶ 21.)

An opinion this schizophrenic cannot possibly be correct. The Legislature either intended negative values or it did not. The Legislature did not legislate \$0 or negative values for much of the plant in service life, and it constitutionally could not do so.

¹¹ Congress or the Legislature may someday allow someone to buy a \$2,000,000 piece of equipment or a \$2,000,000 Bugatti Veyron and expense \$3.4 million, but we are not there yet.

II. The Opinion’s \$0 Value for Plant in Service Violates the Exemptions Clause.¹²

Article IX, [section 2](#) of Arizona’s Constitution provides that “[a]ll property in this state that is not exempt under the laws of the United States or under this section is subject to taxation as provided by law.” A \$0 value is therefore an unconstitutional exemption.

Constitutional avoidance is a fundamental canon of statutory interpretation. Under avoidance doctrine, “[n]o court ought, unless the terms of an act rendered it unavoidable, to give a construction to it which should involve a violation, however unintentional, of the constitution.” *Nat’l Fed’n of Indep. Bus. v. Sebelius*, [567 U.S. 519, 562](#) (2012) (internal quotation marks omitted). Therefore, “It is . . . incumbent upon [courts] to read the statute to eliminate those [constitutional] doubts so long as such a reading is not plainly contrary to the intent of [the enacting legislature].” *United States v. X-Citement Video, Inc.*, [513 U.S. 64, 78](#) (1994); *accord Larsen v. Nissan Motor Corp. in U.S.A.*, [194 Ariz. 142, 147](#), ¶ 13 (App. 1998).

The statutory valuation formula and the Exemptions Clause unequivocally establish that the Opinion’s \$0 value conclusion is wrong.

¹² The Opinion deemed this argument waived. (Op. ¶ 23.) But courts are not limited to the parties’ arguments when considering statutory construction issues if that would cause an incorrect result. *Yarbrough v. Montoya-Paez*, [214 Ariz. 1, 8](#) n.3, ¶ 23 (App. 2006).

CONCLUSION

Petitioners request that the Court grant review, set the 2020 full cash value of San Diego's Arizona Plant at \$18,463,000, and affirm the 2020 full cash value of the Arizona CWIP at \$3,648,000.

Respectfully submitted this 29th day of November, 2023.

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APPENDIX

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sale of electric energy for ultimate distribution to the public.

This system of accounts shall also apply to agencies of the United States engaged in the generation and sale of electric energy for ultimate distribution to the public, so far as may be practicable, in accordance with applicable statutes.

In accordance with the requirements of section 3 of the Act (49 Stat. 839; 16 U.S.C. 796(13)), the "classification of investment in road and equipment of steam roads, Issue of 1914, Interstate Commerce Commission", is published and promulgated as a part of the accounting rules and regulations of the Commission, and a copy thereof appears as Part 103 of this chapter. Irrespective of any rules and regulations contained in this system of accounts, the cost of original projects licensed under the Act, and also the cost of additions thereto and betterments thereof, shall be determined under the rules and principles as defined and interpreted in said classification of the Interstate Commerce Commission so far as applicable.

CROSS REFERENCES: For application of uniform system of accounts to Class C and D public utilities and licensees, see Part 104 of this chapter. For statements and reports, see Part 141 of this chapter.

Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act

Definitions

When used in this system of accounts:

1. "Accounts" means the accounts prescribed in this system of accounts.

2. "Actually issued," as applied to securities issued or assumed by the utility, means those which have been sold to bona fide purchasers for a valuable consideration, those issued as dividends on stock, and those which have been issued in accordance with contractual requirements direct to trustees of sinking funds.

3. "Actually outstanding," as applied to securities issued or assumed by the utility, means those which have been actually issued and are neither retired nor held by or for the utility; provided, however, that securities held by trustees shall be considered as actually outstanding.

4. "Amortization" means the gradual extinguishment of an amount in an account by distributing such amount

over a fixed period, over the life of the asset or liability to which it applies, or over the period during which it is anticipated the benefit will be realized.

5. A. "Associated (affiliated) companies" means companies or persons that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the accounting company.

B. "Control" (including the terms "controlling," "controlled by," and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a company, whether such power is exercised through one or more intermediary companies, or alone, or in conjunction with, or pursuant to an agreement, and whether such power is established through a majority or minority ownership or voting of securities, common directors, officers, or stockholders, voting trusts, holding trusts, associated companies, contract or any other direct or indirect means.

6. "Book cost" means the amount at which property is recorded in these accounts without deduction of related provisions for accrued depreciation, amortization, or for other purposes.

7. "Commission," means the Federal Energy Regulatory Commission.

8. "Continuing Plant Inventory Record" means company plant records for retirement units and mass property that provide, as either a single record, or in separate records readily obtainable by references made in a single record, the following information:

A. For each retirement unit:

(1) The name or description of the unit, or both;

(2) The location of the unit;

(3) The date the unit was placed in service;

(4) The cost of the unit as set forth in Plant Instructions 2 and 3 of this part; and

(5) The plant control account to which the cost of the unit is charged; and

B. For each category of mass property:

(1) A general description of the property and quantity;

(2) The quantity placed in service by vintage year;

(3) The average cost as set forth in Plant Instructions 2 and 3 of this part; and

(4) The plant control account to which the costs are charged.

9. "Cost" means the amount of money actually paid for property or services. When the consideration given is other than cash in a purchase and sale transaction, as distinguished from a transaction involving the issuance of common stock in a merger or a pooling of interest, the value of such consideration shall be determined on a cash basis.

10. "Cost of removal" means the cost of demolishing, dismantling, tearing down or otherwise removing electric plant, including the cost of transportation and handling incidental thereto.

11. "Debt expense" means all expenses in connection with the issuance and initial sale of evidences of debt, such as fees for drafting mortgages and trust deeds; fees and taxes for issuing or recording evidences of debt; cost of engraving and printing bonds and certificates of indebtedness; fees paid trustees; specific costs of obtaining governmental authority; fees for legal services; fees and commissions paid underwriters, brokers, and salesmen for marketing such evidences of debt; fees and expenses of listing on exchanges; and other like costs.

12. "Depreciation," as applied to depreciable electric plant, means the loss in service value not restored by current maintenance, incurred in connection with the consumption or prospective retirement of electric plant in the course of service from causes which are known to be in current operation and against which the utility is not protected by insurance. Among the causes to be given consideration are wear and tear, decay, action of the elements, inadequacy, obsolescence, changes in the art, changes in demand, and requirements of public authorities.

13. "Discount," as applied to the securities issued or assumed by the utility, means the excess of the par (stated value of no-par stocks) or face value of the securities plus interest or dividends accrued at the date of the sale

over the cash value of the consideration received from their sale.

14. "Investment advances" means advances, represented by notes or by book accounts only, with respect to which it is mutually agreed or intended between the creditor and debtor that they shall be settled by the issuance of securities or shall not be subject to current settlement.

15. "Lease, capital" means a lease of property used in utility or nonutility operations, which meets one or more of the criteria stated in General Instruction 19.

16. "Lease, operating" means a lease of property used in utility or nonutility operations, which does not meet any of the criteria stated in General Instruction 19.

17. "Licensee" means any person, or State, licensed under the provisions of the Federal Power Act and subject to the Commission's accounting requirements under the terms of the license.

18. "Minor items of property" means the associated parts or items of which retirement units are composed.

19. "Net salvage value" means the salvage value of property retired less the cost of removal.

20. "Nominally issued," as applied to securities issued or assumed by the utility, means those which have been signed, certified, or otherwise executed, and placed with the proper officer for sale and delivery, or pledged, or otherwise placed in some special fund of the utility, but which have not been sold, or issued direct to trustees of sinking funds in accordance with contractual requirements.

21. "Nominally outstanding," as applied to securities issued or assumed by the utility, means those which, after being actually issued, have been reacquired by or for the utility under circumstances which require them to be considered as held alive and not retired, provided, however, that securities held by trustees shall be considered as actually outstanding.

22. "Nonproject property" means the electric plant of a licensee which is not a part of the project property subject to a license issued by the Commission.

23. "Original cost," as applied to electric plant, means the cost of such

property to the person first devoting it to public service.

24. "Person" means an individual, a corporation, a partnership, an association, a joint stock company, a business trust, or any organized group of persons, whether incorporated or not, or any receiver or trustee.

25. "Premium," as applied to securities issued or assumed by the utility, means the excess of the cash value of the consideration received from their sale over the sum of their par (stated value of no-par stocks) or face value and interest or dividends accrued at the date of sale.

26. "Project" means complete unit of improvement or development, consisting of a power house, all water conduits, all dams and appurtenant works and structures (including navigation structures) which are a part of said unit, and all storage, diverting, or forebay reservoirs directly connected therewith, the primary line or lines transmitting power therefrom to the point of junction with the distribution system or with the interconnected primary transmission system, all miscellaneous structures used and useful in connection with said unit or any part thereof, and all water rights, rights of way, ditches, dams, reservoirs, lands, or interest in lands the use and occupancy of which are necessary or appropriate in the maintenance and operation of such unit.

27. "Project property" means the property described in and subject to a license issued by the Commission.

28. "Property retired," as applied to electric plant, means property which has been removed, sold, abandoned, destroyed, or which for any cause has been withdrawn from service.

29. "Public utility" means any person who owns or operates facilities subject to the jurisdiction of the Commission under the Federal Power Act. (See section 201(e) of said act.)

30. A. "Replacing" or "replacement," when not otherwise indicated in the context, means the construction or installation of electric plant in place of property retired, together with the removal of the property retired.

B. "Research, Development, and Demonstration" (RD&D) in the case of Major utilities means expenditures

incurred by public utilities and licensees either directly or through another person or organization (such as research institute, industry association, foundation, university, engineering company or similar contractor) in pursuing research, development, and demonstration activities including experiment, design, installation, construction, or operation. This definition includes expenditures for the implementation or development of new and/or existing concepts until technically feasible and commercially feasible operations are verified. Such research, development, and demonstration costs should be reasonably related to the existing or future utility business, broadly defined, of the public utility or licensee or in the environment in which it operates or expects to operate. The term includes, but is not limited to: All such costs incidental to the design, development or implementation of an experimental facility, a plant process, a product, a formula, an invention, a system or similar items, and the improvement of already existing items of a like nature; amounts expended in connection with the proposed development and/or proposed delivery of alternate sources of electricity; and the costs of obtaining its own patent, such as attorney's fees expended in making and perfecting a patent application. The term includes preliminary investigations and detailed planning of specific projects for securing for customers non-conventional electric power supplies that rely on technology that has not been verified previously to be feasible. The term does not include expenditures for efficiency surveys; studies of management, management techniques and organization; consumer surveys, advertising, promotions, or items of a like nature.

31. "Retained Earnings" (formerly earned surplus) means the accumulated net income of the utility less distribution to stockholders and transfers to other capital accounts.

32. "Retirement units" means those items of electric plant which, when retired, with or without replacement, are accounted for by crediting the book cost thereof to the electric plant account in which included.

33. "Salvage value" means the amount received for property retired, less any expenses incurred in connection with the sale or in preparing the property for sale; or, if retained, the amount at which the material recoverable is chargeable to materials and supplies, or other appropriate account.

34. "Service life" means the time between the date electric plant is includible in electric plant in service, or electric plant leased to others, and the date of its retirement. If depreciation is accounted for on a production basis rather than on a time basis, then service life should be measured in terms of the appropriate unit of production.

35. "Service value" means the difference between original cost and net salvage value of electric plant.

36. "State" means a State admitted to the Union, the District of Columbia, and any organized Territory of the United States.

37. "Subsidiary Company" in the case of Major utilities means a company which is controlled by the utility through ownership of voting stock. (See "Definitions" item 5B, "Control"). A corporate joint venture in which a corporation is owned by a small group of businesses as a separate and specific business or project for the mutual benefit of the members of the group is a subsidiary company for the purposes of this system of accounts.

38. "Utility," as used herein and when not otherwise indicated in the context, means any public utility or licensee to which this system of accounts is applicable.

GENERAL INSTRUCTIONS

1. Classification of utilities.

A. For purpose of applying the system of accounts prescribed by the Commission, electric utilities and licensees are divided into classes, as follows:

(1) *Major*. Utilities and licensees that had, in each of the last three consecutive years, sales or transmission service that exceeded any one or more of the following:

(1) One million megawatt-hours of total sales;

(2) 100 megawatt-hours of sales for resale;

(3) 500 megawatt-hours of gross interchange out; or

(4) 500 megawatt-hours of wheeling for others (deliveries plus losses).

(2) *Nonmajor*. Utilities and licensees that are not classified as "Major" (as defined above), and had total sales in each of the last three consecutive years of 10,000 megawatt-hours or more.

B. This system applies to both Major and Nonmajor utilities and licensees. Provisions have been incorporated into this system for those entities which, prior to January 1, 1984, were applying the Commission's Uniform System of Accounts Prescribed for Public Utilities and Licensees subject to the Provisions of the Federal Power Act (Class C and Class D) [Part 104 of this chapter, now revoked]. The notations "(Nonmajor)" and "(Major)" have been used to indicate those instructions and accounts from previous systems and classifications, which by definition, are not interchangeable without causing a loss of detail for the Major (previously Class A and Class B) or an increase in detail burden on the Nonmajor (previously Class C and Class D).

C. The class to which any utility or licensee belongs will originally be determined by its annual megawatt hours in each of the last three consecutive years, or in the case of a newly established entity, the projected data shall be the basis. Subsequent changes in classification shall be made as necessary when the megawatt-hours for each of the three immediately preceding years shall exceed the upper limit, or be less than the lower limit of the classification previously applicable to the utility.

D. Any utility may, at its option, adopt the system of accounts prescribed by the Commission for any larger class of utilities.

2. Records.

A. Each utility shall keep its books of account, and all other books, records, and memoranda which support the entries in such books of account so as to be able to furnish readily full information as to any item included in any account. Each entry shall be supported by such detailed information as will permit ready identi-

fication, analysis, and verification of all facts relevant thereto.

B. The books and records referred to herein include not only accounting records in a limited technical sense, but all other records, such as minute books, stock books, reports, correspondence, memoranda, etc., which may be useful in developing the history of or facts regarding any transaction.

C. No utility shall destroy any such books or records unless the destruction thereof is permitted by rules and regulations of the Commission.

D. In addition to prescribed accounts, clearing accounts, temporary or experimental accounts, and subdivisions of any accounts, may be kept, provided the integrity of the prescribed accounts is not impaired.

E. All amounts included in the accounts prescribed herein for electric plant and operating expenses shall be just and reasonable and any payments or accruals by the utility in excess of just and reasonable charges shall be included in account 426.5, Other Deductions.

F. The arrangement or sequence of the accounts prescribed herein shall not be controlling as to the arrangement or sequence in report forms which may be prescribed by the Commission.

3. Numbering System.

A. The account numbering plan used herein consists of a system of three-digit whole numbers as follows:

100-199	Assets and other debits.
200-299	Liabilities and other credits.
300-399	Plant accounts.
400-432, 434-435	Income accounts.
433, 436-439	Retained earnings accounts.
440-459	Revenue accounts.
500-599	Production, transmission and distribution expenses.
900-949	Customer accounts, customer service and informational, sales, and general and administrative expenses.

B. In certain instances, numbers have been skipped in order to allow for possible later expansion or to permit better coordination with the numbering system for other utility departments.

C. The numbers prefixed to account titles are to be considered as parts of the titles. Each utility, however, may adopt for its own purposes a different

system of account numbers (see also general instruction 2D) provided that the numbers herein prescribed shall appear in the descriptive headings of the ledger accounts and in the various sources of original entry; however, if a utility uses a different group of account numbers and it is not practicable to show the prescribed account numbers in the various sources of original entry, such reference to the prescribed account numbers may be omitted from the various sources of original entry. Moreover, each utility using different account numbers for its own purposes shall keep readily available a list of such account numbers which it uses and a reconciliation of such account numbers with the account numbers provided herein. It is intended that the utility's records shall be so kept as to permit ready analysis by prescribed accounts (by direct reference to sources of original entry to the extent practicable) and to permit preparation of financial and operating statements directly from such records at the end of each accounting period according to the prescribed accounts.

4. Accounting Period.

Each utility shall keep its books on a monthly basis so that for each month all transactions applicable thereto, as nearly as may be ascertained, shall be entered in the books of the utility. Amounts applicable or assignable to specific utility departments shall be so segregated monthly. Each utility shall close its books at the end of each calendar year unless otherwise authorized by the Commission.

5. Submittal of Questions.

To maintain uniformity of accounting, utilities shall submit questions of doubtful interpretation to the Commission for consideration and decision.

6. Item Lists.

Lists of "Items" appearing in the texts of the accounts or elsewhere herein are for the purpose of more clearly indicating the application of the prescribed accounting. The lists are intended to be representative, but not exhaustive. The appearance of an item in a list warrants the inclusion of the item in the account mentioned only when the text of the account also indicates inclusion inasmuch as the

same item frequently appears in more than one list. The proper entry in each instance must be determined by the texts of the accounts.

7. Extraordinary Items.

It is the intent that net income shall reflect all items of profit and loss during the period with the exception of prior period adjustments as described in paragraph 7.1 and long-term debt as described in paragraph 17 below. Those items related to the effects of events and transactions which have occurred during the current period and which are of unusual nature and infrequent occurrence shall be considered extraordinary items. Accordingly, they will be events and transactions of significant effect which are abnormal and significantly different from the ordinary and typical activities of the company, and which would not reasonably be expected to recur in the foreseeable future. (In determining significance, items should be considered individually and not in the aggregate. However, the effects of a series of related transactions arising from a single specific and identifiable event or plan of action should be considered in the aggregate. To be considered as extraordinary under the above guidelines, an item should be more than approximately 5 percent of income, computed before extraordinary items. Commission approval must be obtained to treat an item of less than 5 percent, as extraordinary. (See accounts 434 and 435.)

7.1 Prior period items.

A. Items of profit and loss related to the following shall be accounted for as prior period adjustments and excluded from the determination of net income for the current year:

- (1) Correction of an error in the financial statements of a prior year.
- (2) Adjustments that result from realization of income tax benefits of pre-acquisition operating loss carryforwards of purchased subsidiaries.

B. All other items of profit and loss recognized during the year shall be included in the determination of net income for that year.

8. Unaudited Items (Major Utility).

Whenever a financial statement is required by the Commission, if it is known that a transaction has occurred

which affects the accounts but the amount involved in the transaction and its effect upon the accounts cannot be determined with absolute accuracy, the amount shall be estimated and such estimated amount included in the proper accounts. The utility is not required to anticipate minor items which would not appreciably affect the accounts.

9. Distribution of Pay and Expenses of Employees.

The charges to electric plant, operating expense and other accounts for services and expenses of employees engaged in activities chargeable to various accounts, such as construction, maintenance, and operations, shall be based upon the actual time engaged in the respective classes of work, or in case that method is impracticable, upon the basis of a study of the time actually engaged during a representative period.

10. Payroll Distribution.

Underlying accounting data shall be maintained so that the distribution of the cost of labor charged direct to the various accounts will be readily available. Such underlying data shall permit a reasonably accurate distribution to be made of the cost of labor charged initially to clearing accounts so that the total labor cost may be classified among construction, cost of removal, electric operating functions (steam generation, nuclear generation, hydraulic generation, transmission, distribution, etc.) and nonutility operations.

11. Accounting to be on Accrual Basis.

A. The utility is required to keep its accounts on the accrual basis. This requires the inclusion in its accounts of all known transactions of appreciable amount which affect the accounts. If bills covering such transactions have not been received or rendered, the amounts shall be estimated and appropriate adjustments made when the bills are received.

B. When payments are made in advance for items such as insurance, rents, taxes or interest the amount applicable to future periods shall be charged to account 165, Prepayments, and spread over the periods to which applicable by credits to account 165,

and charges to the accounts appropriate for the expenditure.

12. Records for Each Plant (Major Utility).

Separate records shall be maintained by electric plant accounts of the book cost of each plant owned, including additions by the utility to plant leased from others, and of the cost of operating and maintaining each plant owned or operated. The term "plant" as here used means each generating station and each transmission line or appropriate group of transmission lines.

13. Accounting for Other Departments.

If the utility also operates other utility departments, such as gas, water, etc., it shall keep such accounts for the other departments as may be prescribed by proper authority and in the absence of prescribed accounts, it shall keep such accounts as are proper or necessary to reflect the results of operating each such department. It is not intended that proprietary and similar accounts which apply to the utility as a whole shall be departmentalized.

14. Transactions With Associated Companies (Major Utility).

Each utility shall keep its accounts and records so as to be able to furnish accurately and expeditiously statements of all transactions with associated companies. The statements may be required to show the general nature of the transactions, the amounts involved therein and the amounts included in each account prescribed herein with respect to such transactions. Transactions with associated companies shall be recorded in the appropriate accounts for transactions of the same nature. Nothing herein contained, however, shall be construed as restraining the utility from subdividing accounts for the purpose of recording separately transactions with associated companies.

15. Contingent Assets and Liabilities (Major Utility).

Contingent assets represent a possible source of value to the utility contingent upon the fulfillment of conditions regarded as uncertain. Contingent liabilities include items which may under certain conditions become obligations of the utility but which are

neither direct nor assumed liabilities at the date of the balance sheet. The utility shall be prepared to give a complete statement of significant contingent assets and liabilities (including cumulative dividends on preference stock) in its annual report and at such other times as may be requested by the Commission.

16. Separate Accounts or Records for Each Licensed Project.

The accounts or records of each licensee shall be so kept as to show for each project (including pumped storage) under license;

(a) The actual legitimate original cost of the project, including the original cost (or fair value, as determined under section 23 of the Federal Power Act) of the original project, the original cost of additions thereto and betterments thereof and credits for property retired from service, as determined under the Commission's regulations;

(b) The charges for operation and maintenance of the project property directly assignable to the project;

(c) The credits and debits to the depreciation and amortization accounts, and the balances in such accounts;

(d) The credits and debits to operating revenue, income, and retained earnings accounts that can be identified with and directly assigned to the project.

Note: The purpose of this instruction is to insure that accounts or records are currently maintained by each licensee from which reports may be made to the Commission for use in determining the net investment in each licensed project. The instruction covers only the debit and credit items appearing in the licensee's accounts which may be identified with and assigned directly to any licensed project. In the determination of the net investment as defined in section 3 of the Federal Power Act, allocations of items affecting the net investment may be required where direct assignment is not practicable.

17. Long-Term Debt: Premium, Discount and Expense, and Gain or Loss on Reacquisition.

A. Premium, discount and expense. A separate premium, discount and expense account shall be maintained for each class and series of long-term debt (including receivers' certificates) is-

sued or assumed by the utility. The premium will be recorded in account 225, Unamortized Premium on Long-Term Debt, the discount will be recorded in account 226, Unamortized Discount on Long-Term Debt—Debit, and the expense of issuance shall be recorded in account 181, Unamortized Debt Expense.

The premium, discount and expense shall be amortized over the life of the respective issues under a plan which will distribute the amounts equitably over the life of the securities. The amortization shall be on a monthly basis, and amounts thereof relating to discount and expense shall be charged to account 428, Amortization of Debt Discount and Expense. The amounts relating to premium shall be credited to account 429, Amortization of Premium on Debt—Credit.

B. Reacquisition, without refunding. When long-term debt is reacquired or redeemed without being converted into another form of long-term debt and when the transaction is not in connection with a refunding operation (primarily redemptions for sinking fund purposes), the difference between the amount paid upon reacquisition and the face value; plus any unamortized premium less any related unamortized debt expense and reacquisition costs; or less any unamortized discount, related debt expense and reacquisition costs applicable to the debt redeemed, retired and canceled, shall be included in account 189, Unamortized Loss on Reacquired Debt, or account 257, Unamortized Gain on Reacquired Debt, as appropriate. The utility shall amortize the recorded amounts equally on a monthly basis over the remaining life of the respective security issues (old original debt). The amounts so amortized shall be charged to account 428.1, Amortization of Loss on Reacquired Debt, or credited to account 429.1, Amortization of Gain on Reacquired Debt—Credit, as appropriate.

C. Reacquisition, with refunding. When the redemption of one issue or series of bonds or other long-term obligations is financed by another issue or series before the maturity date of the first issue, the difference between the amount paid upon refunding and the

face value; plus any unamortized premium less related debt expense or less any unamortized discount and related debt expense, applicable to the debt refunded, shall be included in account 189, Unamortized Loss on Reacquired Debt, or account 257, Unamortized Gain on Reacquired Debt, as appropriate. The utility may elect to account for such amounts as follows:

(1) Write them off immediately when the amounts are insignificant.

(2) Amortize them by equal monthly amounts over the remainder of the original life of the issue retired, or

(3) Amortize them by equal monthly amounts over the life of the new issue.

Once an election is made, it shall be applied on a consistent basis. The amounts in (1), (2) or (3) above shall be charged to account 428.1, Amortization of Loss on Reacquired Debt, or credited to account 429.1, Amortization of Gain on Reacquired Debt—Credit, as appropriate.

D. Under methods (2) and (3) above, the increase or reduction in current income taxes resulting from the reacquisition should be apportioned over the remainder of the original life of the issue retired or over the life of the new issue, as appropriate, as directed more specifically in paragraphs E and F below.

E. When the utility recognizes the loss in the year of reacquisition as a tax deduction, account 410.1, Provision for Deferred Income Taxes, Utility Operating Income, shall be debited and account 283, Accumulated Deferred Income Taxes—Other, shall be credited with the amount of the related tax effect, such amount to be allocated to the periods affected in accordance with the provisions of account 283.

F. When the utility chooses to recognize the gain in the year of reacquisition as a taxable gain, account 411.1, Provision for Deferred Income Taxes—Credit, Utility Operating Income, shall be credited and account 190, Accumulated Deferred Income Taxes, shall be debited with the amount of the related tax effect, such amount to be allocated to the periods affected in accordance with the provisions of account 190.

G. When the utility chooses to use the optional privilege of deferring the tax on the gain attributable to the reacquisition of debt by reducing the depreciable basis of utility property for tax purposes, pursuant to section 108 of the Internal Revenue Code, the related tax effects shall be deferred as the income is recognized for accounting purposes, and the deferred amounts shall be amortized over the life of the associated property on a vintage year basis. Account 410.1, Provision for Deferred Income Taxes, Utility Operating Income, shall be debited, and account 282, Accumulated Deferred Income Taxes—Other Property shall be credited with an amount equal to the estimated income tax effect applicable to the portion of the income, attributable to reacquired debt, recognized for accounting purposes during the period. Account 282 shall be debited and account 411.1, Provision for Deferred Income Taxes—Credit, Utility Operating Income, shall be credited with an amount equal to the estimated income tax effects, during the life of the property, attributable to the reduction in the depreciable basis for tax purposes.

H. The tax effects relating to gain or loss shall be allocated as above to utility operations except in cases where a portion of the debt reacquired is directly applicable to nonutility operations. In that event, the related portion of the tax effects shall be allocated to nonutility operations. Where it can be established that reacquired debt is generally applicable to both utility and nonutility operations, the tax effects shall be allocated between utility and nonutility operations based on the ratio of net investment in utility plant to net investment in nonutility plant.

I. Premium, discount, or expense on debt shall not be included as an element in the cost of construction or acquisition of property (tangible or intangible), except under the provisions of account 432, Allowance for Borrowed Funds Used During Construction—Credit.

J. *Alternate method.* Where a regulatory authority or a group of regulatory authorities having prime rate jurisdiction over the utility specifically

disallows the rate principle of amortizing gains or losses on reacquisition of long-term debt without refunding, and does not apply the gain or loss to reduce interest charges in computing the allowed rate of return for rate purposes, then the following alternate method may be used to account for gains or losses relating to reacquisition of long-term debt, with or without refunding.

(1) The difference between the amount paid upon reacquisition of any long-term debt and the face value, adjusted for unamortized discount, expenses or premium, as the case may be, applicable to the debt redeemed shall be recognized currently in income and recorded in account 421, Miscellaneous Nonoperating Income, or account 426.5, Other Deductions.

(2) When this alternate method of accounting is used, the utility shall include a footnote to each financial statement, prepared for public use, explaining why this method is being used along with the treatment given for ratemaking purposes.

18. *Comprehensive Interperiod Income Tax Allocation.*

A. Where there are timing differences between the periods 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.

B. 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 describing the treatment for ratemaking purposes of the tax timing differences by regulatory authorities having rate jurisdiction.

C. 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.

D. 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.

E. Tax effects deferred, currently will be recorded as deferred debits or deferred credits in accounts 190, Accumulated Deferred Income Taxes, 281, Accumulated Deferred Income Taxes—Accelerated Amortization Property, 282, Accumulated Deferred Income Taxes—Other Property, and 283, Accumulated Deferred Income Taxes—Other, as appropriate. The resulting amounts recorded in these accounts shall be disposed of as prescribed in this system of accounts or as otherwise authorized by the Commission.

19. *Criteria for classifying leases.*

A. If at its inception a lease meets one or more of the following criteria, the lease shall be classified as a capital lease. Otherwise, it shall be classified as an operating lease.

(1) The lease transfers ownership of the property to the lessee by the end of the lease term

(2) The lease contains a bargain purchase option.

(3) The lease term is equal to 75 percent or more of the estimated economic life of the leased property. However, if the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property, including earlier years of use, this criterion shall not be used for purposes of classifying the lease.

(4) The present value at the beginning of the lease term of the minimum lease payments, excluding that portion of the payments representing executory

costs such as insurance, maintenance, and taxes to be paid by the lessor, including any profit thereon, equals or exceeds 90 percent of the excess of the fair value of the leased property to the lessor at the inception of the lease over any related investment tax credit retained by the lessor and expected to be realized by the lessor. However, if the beginning of the lease term falls within the last 25 percent of the total estimated economic life of the leased property, including earlier years of use, this criterion shall not be used for purposes of classifying the lease. The lessee utility shall compute the present value of the minimum lease payments using its incremental borrowing rate, unless (A) it is practicable for the utility to learn the implicit rate computed by the lessor, and (B) the implicit rate computed by the lessor is less than the lessee's incremental borrowing rate. If both of those conditions are met, the lessee shall use the implicit rate.

B. If at any time the lessee and lessor agree to change the provisions of the lease, other than by renewing the lease or extending its term, in a manner that would have resulted in a different classification of the lease under the criteria in paragraph A had the changed terms been in effect at the inception of the lease, the revised agreement shall be considered as a new agreement over its term, and the criteria in paragraph A shall be applied for purposes of classifying the new lease. Likewise, any action that extends the lease beyond the expiration of the existing lease term, such as the exercise of a lease renewal option other than those already included in the lease term, shall be considered as a new agreement and shall be classified according to the above provisions. Changes in estimates (for example, changes in estimates of the economic life or of the residual value of the leased property) or changes in circumstances (for example, default by the lessee) shall not give rise to a new classification of a lease for accounting purposes.

20. *Accounting for leases.*

A. All leases shall be classified as either capital or operating leases. The accounting for capitalized leases is ef-

fective January 1, 1984, except for the retroactive classification of certain leases which, in accordance with FASB No. 71, will not be required to be capitalized until after a three year transition period. For the purpose of reporting to the FERC, the transition period shall be deemed to end December 31, 1986.

B. The utility shall record a capital lease as an asset in account 101.1, Property under Capital Leases, Account 120.6, Nuclear Fuel under Capital Leases, or account 121, Nonutility Property, as appropriate, and an obligation in account 227, Obligations under Capital Leases—Noncurrent, or account 243, Obligations under Capital Leases—Current, at an amount equal to the present value at the beginning of the lease term of minimum lease payments during the lease term, excluding that portion of the payments representing executory costs such as insurance, maintenance, and taxes to be paid by the lessor, together with any profit thereon. However, if the amount so determined exceeds the fair value of the leased property at the inception of the lease, the amount recorded as the asset and obligation shall be the fair value.

C. Rental payments on all leases shall be charged to rent expense, fuel expense, construction work in progress, or other appropriate accounts as they become payable.

D. For a capital lease, for each period during the lease term, the amounts recorded for the asset and obligation shall be reduced by an amount equal to the portion of each lease payment that would have been allocated to the reduction of the obligation, if the payment had been treated as a payment on an installment obligation (liability) and allocated between interest expense and a reduction of the obligation so as to produce a constant periodic rate of interest on the remaining balance.

Electric Plant Instructions

1. *Classification of electric plant at effective date of system of accounts (Major utilities).*

A. The electric plant accounts provided herein are the same as those

contained in the prior system of accounts except for inclusion of accounts for nuclear production plant and some changes in classification in the general equipment accounts. Except for these changes, the balances in the various plant accounts, as determined under the prior system of accounts, should be carried forward. Any remaining balance of plant which has not yet been classified, pursuant to the requirements of the prior system, shall be classified in accordance with the following instructions.

B. The cost to the utility of its unclassified plant shall be ascertained by analysis of the utility's records. Adjustments shall not be made to record in utility plant accounts amounts previously charged to operating expenses or to income deductions in accordance with the uniform system of accounts in effect at the time or in accordance with the discretion of management as exercised under a uniform system of accounts, or under accounting practices previously followed.

C. The detailed electric plant accounts (301 to 399, inclusive) shall be stated on the basis of cost to the utility of plant constructed by it and the original cost, estimated if not known, of plant acquired as an operating unit or system. The difference between the original cost, as above, and the cost to the utility of electric plant after giving effect to any accumulated provision for depreciation or amortization shall be recorded in account 114, Electric Plant Acquisition Adjustments. The original cost of electric plant shall be determined by analysis of the utility's records or those of the predecessor or vendor companies with respect to electric plant previously acquired as operating units or systems and the difference between the original cost so determined, less accumulated provisions for depreciation and amortization and the cost to the utility with necessary adjustments for retirements from the date of acquisition, shall be entered in account 114, Electric Plant Acquisition Adjustments. Any difference between the cost of electric plant and its book cost, when not properly includible in other accounts, shall be recorded in account 116, Other Electric Plant Adjustments.

D. Plant acquired by lease which qualifies as capital lease property under General Instruction 19. *Criteria for Classifying Leases*, shall be recorded in Account 101.1, Property under Capital Leases, or Account 120.6, Nuclear Fuel under Capital Leases, as appropriate.

2. *Electric Plant To Be Recorded at Cost.*

A. All amounts included in the accounts for electric plant acquired as an operating unit or system, except as otherwise provided in the texts of the intangible plant accounts, shall be stated at the cost incurred by the person who first devoted the property to utility service. All other electric plant shall be included in the accounts at the cost incurred by the utility, except for property acquired by lease which qualifies as capital lease property under General Instruction 19. *Criteria for Classifying Leases*, and is recorded in Account 101.1, Property under Capital Leases, or Account 120.6, Nuclear Fuel under Capital Leases. Where the term "cost" is used in the detailed plant accounts, it shall have the meaning stated in this paragraph.

B. When the consideration given for property is other than cash, the value of such consideration shall be determined on a cash basis (see, however, definition 9). 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.

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

D. The electric plant accounts shall not include the cost or other value of electric plant contributed to the company. Contributions in the form of money or its equivalent toward the construction of electric plant shall be credited to accounts charged with the cost of such construction. Plant constructed from contributions of cash or

its equivalent shall be shown as a reduction to gross plant constructed when assembling cost data in work orders for posting to plant ledgers of accounts. The accumulated gross costs of plant accumulated in the work order shall be recorded as a debit in the plant ledger of accounts along with the related amount of contributions concurrently be recorded as a credit.

3. *Components of construction cost.*

A. For Major utilities, the cost of construction properly includible in the electric plant accounts shall include, where applicable, the direct and overhead cost as listed and defined hereunder:

(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.

(2) "Labor" includes the pay and expenses of employees of the utility engaged on construction work, and related workmen's compensation insurance, payroll taxes and similar items of expense. It does not include the pay and expenses of employees which are distributed to construction through clearing accounts nor the pay and expenses included in other items hereunder.

(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 allowance 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.

NOTE: The cost of individual items of equipment of small value (for example, \$500 or less) or of short life, including small portable tools and implements, shall not be charged to utility plant accounts unless the correctness of the accounting therefor is verified by current inventories. The cost shall be charged to the appropriate operating expense or clearing accounts, according

to the use of such items, or, if such items are consumed directly in construction work, the cost shall be included as part of the cost of the construction.

(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. (See item 5 following.)

(5) "Special machine service" includes the cost of labor (optional), materials and supplies, depreciation, and other expenses incurred in the maintenance, operation and use of special machines, such as steam shovels, pile drivers, derricks, ditchers, scrapers, material unloaders, and other labor saving machines; also expenditures for rental, maintenance and operation of machines of others. It does not include the cost of small tools and other individual items of small value or short life which are included in the cost of materials and supplies. (See item 3, above.) When a particular construction job requires the use for an extended period of time of special machines, transportation or other equipment, the net book cost thereof, less the appraised or salvage value at time of release from the job, shall be included in the cost of construction.

(6) "Shop service" includes the proportion of the expense of the utility's shop department assignable to construction work except that the cost of fabricated materials from the utility's shop shall be included in "materials and supplies."

(7) "Protection" includes the cost of protecting the utility's property from fire or other casualties and the cost of preventing damages to others, or to the property of others, including payments for discovery or extinguishment of fires, cost of apprehending and prosecuting incendiaries, witness fees in relation thereto, amounts paid to municipalities and others for fire protection, and other analogous items of expenditures in connection with construction work.

(8) "Injuries and damages" includes expenditures or losses in connection

with construction work on account of injuries to persons and damages to the property of others; also the cost of investigation of and defense against actions for such injuries and damages. Insurance recovered or recoverable on account of compensation paid for injuries to persons incident to construction shall be credited to the account or accounts to which such compensation is charged. Insurance recovered or recoverable on account of property damages incident to construction shall be credited to the account or accounts charged with the cost of the damages.

(9) "Privileges and permits" includes payments for and expenses incurred in securing temporary privileges, permits or rights in connection with construction work, such as for the use of private or public property, streets, or highways, but it does not include rents, or amounts chargeable as franchises and consents for which see account 302, Franchises and Consents.

(10) "Rents" includes amounts paid for the use of construction quarters and office space occupied by construction forces and amounts properly includible in construction costs for such facilities jointly used.

(11) "Engineering and supervision" includes the portion of the pay and expenses of engineers, surveyors, draftsmen, inspectors, superintendents and their assistants applicable to construction work.

(12) "General administration capitalized" includes the portion of the pay and expenses of the general officers and administrative and general expenses applicable to construction work.

(13) "Engineering services" includes 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.

(14) "Insurance" includes premiums paid or amounts provided or reserved as self-insurance for the protection against loss and damages in connection with construction, by fire or other casualty injuries to or death of persons other than employees, damages to property of others, defalcation of employees and agents, and the nonper-

formance of contractual obligations of others. It does not include workmen's compensation or similar insurance on employees included as "labor" in item 2, above.

(15) "Law expenditures" includes the general law expenditures incurred in connection with construction and the court and legal costs directly related thereto, other than law expenses included in protection, item 7, and in injuries and damages, item 8.

(16) "Taxes" 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.

(17) "Allowance for funds used during construction" (Major and Non-major Utilities). Includes the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used, not to exceed, without prior approval of the Commission, allowances computed in accordance with the formula prescribed in paragraph (a) of this subparagraph. No allowance for funds used during construction charges shall be included in these accounts upon expenditures for construction projects which have been abandoned.

(a) The formula and elements for the computation of the allowance for funds used during construction shall be:

$$A_1 = s(S/W) + d(D/D + P + C)(1 - S/W)$$

$$A_2 = [1 - S/W][p(P/D + P + C) + c(C/D + P + C)]$$

A_1 = Gross allowance for borrowed funds used during construction rate.

A_2 = Allowance for other funds used during construction rate.

S = Average short-term debt.

s = Short-term debt interest rate.

D = Long-term debt.

d = Long-term debt interest rate.

P = Preferred stock.

p = Preferred stock cost rate.

C = Common equity.

c = Common equity cost rate.

W = Average balance in construction work in progress plus nuclear fuel in process of refinement, conversion, enrichment and fabrication.

(b) The rates shall be determined annually. The balances for long-term debt, preferred stock and common equity shall be the actual book bal-

ances as of the end of the prior year. The cost rates for long-term debt and preferred stock shall be the weighted average cost determined in the manner indicated in § 35.13 of the Commission's Regulations Under the Federal Power Act. The cost rate for common equity shall be the rate granted common equity in the last rate proceeding before the ratemaking body having primary rate jurisdictions. If such cost rate is not available, the average rate actually earned during the preceding three years shall be used. The short-term debt balances and related cost and the average balance for construction work in progress plus nuclear fuel in process of refinement, conversion, enrichment, and fabrication shall be estimated for the current year with appropriate adjustments as actual data becomes available.

NOTE: When a part only of a plant or project is placed in operation or is completed and ready for service but the construction work as a whole is incomplete, that part of the cost of the property placed in operation or ready for service, shall be treated as "Electric Plant in Service" and allowance for funds used during construction thereon as a charge to construction shall cease. Allowance for funds used during construction on that part of the cost of the plant which is incomplete may be continued as a charge to construction until such time as it is placed in operation or is ready for service, except as limited in item 17, above.

(18) "Earnings and expenses during construction." The earnings and expenses during construction shall constitute a component of construction costs.

(a) The earnings shall include revenues received or earned for power produced by generating plants during the construction period and sold or used by the utility. Where such power is sold to an independent purchaser before intermingling with power generated by other plants, the credit shall consist of the selling price of the energy. Where the power generated by a plant under construction is delivered to the utility's electric system for distribution and sale, or is delivered to an associated company, or is delivered to and used by the utility for purposes other than distribution and sale (for

manufacturing or industrial use, for example), the credit shall be the fair value of the energy so delivered. The revenues shall also include rentals for lands, buildings etc., and miscellaneous receipts not properly includible in other accounts.

(b) The expenses shall consist of the cost of operating the power plant, and other costs incident to the production and delivery of the power for which construction is credited under paragraph (a), above, including the cost of repairs and other expenses of operating and maintaining lands, buildings, and other property, and other miscellaneous and like expenses not properly includible in other accounts.

(19) "Training costs" (Major and Nonmajor Utilities). When it is necessary that employees be trained to operate or maintain plant facilities that are being constructed and such facilities are not conventional in nature, or are new to the company's operations, these costs may be capitalized as a component of construction cost. Once plant is placed in service, the capitalization of training costs shall cease and subsequent training costs shall be expensed. (See Operating Expense Instruction 4.)

(20) "Studies" includes the costs of studies such as nuclear operational, safety, or seismic studies or environmental studies mandated by regulatory bodies relative to plant under construction. Studies relative to facilities in service shall be charged to account 183, Preliminary Survey and Investigation Charges.

B. For Nonmajor utilities, the cost of construction of property chargeable to the electric plant accounts shall include, where applicable, the cost of labor; materials and supplies; transportation; work done by others for the utility; injuries and damages incurred in construction work; privileges and permits; special machine service; allowance for funds used during construction, not to exceed without prior approval of the Commission, amounts computed in accordance with the formula prescribed in paragraph (a) of paragraph (17) of this Instruction; training costs; and such portion of general engineering, administrative salaries and expenses, insurance,

taxes, and other analogous items as may be properly includable in construction costs. (See Operating Expense Instruction 4.) The rates and balances of short and long-term debt, preferred stock, common equity and construction work in progress shall be determined as prescribed in paragraph (b) of paragraph (17) of this Instruction.

4. Overhead Construction Costs.

A. All overhead construction costs, such as engineering, supervision, general office salaries and expenses, construction engineering and supervision by others than the accounting utility, law expenses, insurance, injuries and damages, relief and pensions, taxes and interest, shall be charged to particular jobs or units on the basis of the amounts of such overheads reasonably applicable thereto, to the end that each job or unit shall bear its equitable proportion of such costs and that the entire cost of the unit, both direct and overhead, shall be deducted from the plant accounts at the time the property is retired.

B. As far as practicable, the determination of pay roll charges includible in construction overheads shall be based on time card distributions thereof. Where this procedure is impractical, special studies shall be made periodically of the time of supervisory employees devoted to construction activities to the end that only such overhead costs as have a definite relation to construction shall be capitalized. The addition to direct construction costs of arbitrary percentages or amounts to cover assumed overhead costs is not permitted.

C. For Major utilities, the records supporting the entries for overhead construction costs shall be so kept as to show the total amount of each overhead for each year, the nature and amount of each overhead expenditure charged to each construction work order and to each electric plant account, and the bases of distribution of such costs.

5. Electric Plant Purchased or Sold.

A. When electric plant constituting an operating unit or system is acquired by purchase, merger, consolidation, liquidation, or otherwise, after the effective date of this system of ac-

counts, the costs of acquisition, including expenses incidental thereto properly includible in electric plant, shall be charged to account 102, Electric Plant Purchased or Sold.

B. The accounting for the acquisition shall then be completed as follows:

(1) The original cost of plant, estimated if not known, shall be credited to account 102, Electric Plant Purchased or Sold, and concurrently charged to the appropriate electric plant in service accounts and to account 104, Electric Plant Leased to Others, account 105, Electric Plant Held for Future Use, and account 107, Construction Work in Progress—Electric, as appropriate.

(2) The depreciation and amortization applicable to the original cost of the properties purchased shall be charged to account 102, Electric Plant Purchased or Sold, and concurrently credited to the appropriate account for accumulated provision for depreciation or amortization.

(3) The cost to the utility of any property includible in account 121, Nonutility Property, shall be transferred thereto.

(4) The amount remaining in account 102, Electric Plant Purchased or Sold, shall then be closed to account 114, Electric Plant Acquisition Adjustments.

C. If property acquired in the purchase of an operating unit or system is in such physical condition when acquired that it is necessary substantially to rehabilitate it in order to bring the property up to the standards of the utility, the cost of such work, except replacements, shall be accounted for as a part of the purchase price of the property.

D. When any property acquired as an operating unit or system includes duplicate or other plant which will be retired by the accounting utility in the reconstruction of the acquired property or its consolidation with previously owned property, the proposed accounting for such property shall be presented to the Commission.

E. In connection with the acquisition of electric plant constituting an operating unit or system, the utility shall procure, if possible, all existing

records relating to the property acquired, or certified copies thereof, and shall preserve such records in conformity with regulations or practices governing the preservation of records of its own construction.

F. When electric plant constituting an operating unit or system is sold, conveyed, or transferred to another by sale, merger, consolidation, or otherwise, the book cost of the property sold or transferred to another shall be credited to the appropriate utility plant accounts, including amounts carried in account 114, Electric Plant Acquisition Adjustments. The amounts (estimated if not known) carried with respect thereto in the accounts for accumulated provision for depreciation and amortization and in account 252, Customer Advances for Construction, shall be charged to such accounts and contra entries made to account 102, Electric Plant Purchased or Sold. Unless otherwise ordered by the Commission, the difference, if any, between (1) the net amount of debits and credits and (2) the consideration received for the property (less commissions and other expenses of making the sale) shall be included in account 421.1, Gain on Disposition of Property, or account 421.2, Loss on Disposition of Property. (See account 102, Electric Plant Purchased or Sold.)

NOTE: In cases where existing utilities merge or consolidate because of financial or operating reasons or statutory requirements rather than as a means of transferring title of purchased properties to a new owner, the accounts of the constituent utilities, with the approval of the Commission, may be combined. In the event original cost has not been determined, the resulting utility shall proceed to determine such cost as outlined herein.

6. *Expenditures on Leased Property.*

A. The cost of substantial initial improvements (including repairs, rearrangements, additions, and betterments) made in the course of preparing for utility service property leased for a period of more than one year, and the cost of subsequent substantial additions, replacements, or betterments to such property, shall be charged to the electric plant account appropriate for the class of property leased. If the service life of the im-

improvements is terminable by action of the lease, the cost, less net salvage, of the improvements shall be spread over the life of the lease by charges to account 404, Amortization of Limited-Term Electric Plant. However, if the service life is not terminated by action of the lease but by depreciation proper, the cost of the improvements, less net salvage, shall be accounted for as depreciable plant. The provisions of this paragraph are applicable to property leased under either capital leases or operating leases.

B. If improvements made to property leased for a period of more than one year are of relatively minor cost, or if the lease is for a period of not more than one year, the cost of the improvements shall be charged to the account in which the rent is included, either directly or by amortization thereof.

7. Land and Land Rights.

A. The accounts for land and land rights shall include the cost of land owned in fee by the utility and rights, interests, and privileges held by the utility in land owned by others, such as leaseholds, easements, water and water power rights, diversion rights, submersion rights, rights-of-way, and other like interests in land. Do not include in the accounts for land and land rights and rights-of-way costs incurred in connection with first clearing and grading of land and rights-of-way and the damage costs associated with the construction and installation of plant. Such costs shall be included in the appropriate plant accounts directly benefited.

B. Where special assessments for public improvements provide for deferred payments, the full amount of the assessments shall be charged to the appropriate land account and the unpaid balance shall be carried in an appropriate liability account. Interest on unpaid balances shall be charged to the appropriate interest account. If any part of the cost of public improvements is included in the general tax levy, the amount thereof shall be charged to the appropriate tax account.

C. The net profit from the sale of timber, cord wood, sand, gravel, other resources or other property acquired

with the rights-of-way or other lands shall be credited to the appropriate plant account to which related. Where land is held for a considerable period of time and timber and other natural resources on the land at the time of purchase increases in value, the net profit (after giving effect to the cost of the natural resources) from the sales of timber or its products or other natural resources shall be credited to the appropriate utility operating income account when such land has been recorded in account 105, Electric Plant Held for Future Use or classified as plant in service, otherwise to account 421, Miscellaneous Nonoperating Income.

D. Separate entries shall be made for the acquisition, transfer, or retirement of each parcel of land, and each land right (except rights of way for distribution lines), or water right, having a life of more than one year. A record shall be maintained showing the nature of ownership, full legal description; area, map reference, purpose for which used, city, county, and tax district on which situated, from whom purchased or to whom sold, payment given or received, other costs, contract date and number, date of recording of deed, and book and page of record. Entries transferring or retiring land or land rights shall refer to the original entry recording its acquisition.

E. Any difference between the amount received from the sale of land or land rights, less agents' commissions and other costs incident to the sale, and the book cost of such land or rights, shall be included in account 411.6, Gains from Disposition of Utility Plant, or 411.7, Losses from Disposition of Utility Plant when such property has been recorded in account 105, Electric Plant Held for Future Use, otherwise to account 421.1, Gain on Disposition of Property or 421.2, Loss on Disposition of Property, as appropriate, unless a reserve therefor has been authorized and provided. Appropriate adjustments of the accounts shall be made with respect to any structures or improvements located on land sold.

F. The cost of buildings and other improvements (other than public improvements) shall not be included in

the land accounts. If at the time of acquisition of an interest in land such interest extends to buildings or other improvements (other than public improvements) which are then devoted to utility operations, the land and improvements shall be separately appraised and the cost allocated to land and buildings or improvements on the basis of the appraisals. If the improvements are removed or wrecked without being used in operations, the cost of removing or wrecking shall be charged and the salvage credited to the account in which the cost of the land is recorded.

G. When the purchase of land for electric operations requires the purchase of more land than needed for such purposes, the charge to the specific land account shall be based upon the cost of the land purchased, less the fair market value of that portion of the land which is not to be used in utility operations. The portion of the cost measured by the fair market value of the land not to be used shall be included in account 105, Electric Plant Held for Future Use, or account 121, Nonutility Property, as appropriate.

H. Provisions shall be made for amortizing amounts carried in the accounts for limited-term interests in land so as to apportion equitably the cost of each interest over the life thereof. (For Major utilities, see account 111, Accumulated Provision for Amortization of Electric Plant Utility, and account 404, Amortization of Limited-Term Electric Plant. For Nonmajor utilities, see account 404.)

I. The items of cost to be included in the accounts for land and land rights are as follows:

1. Bulkheads, buried, not requiring maintenance or replacement.
2. Cost, first, of acquisition including mortgages and other liens assumed (but not subsequent interest thereon).
3. [Reserved.]
4. Condemnation proceedings, including court and counsel costs.
5. Consents and abutting damages, payment for.
6. Conveyancers' and notaries' fees.
7. Fees, commissions, and salaries to brokers, agents and others in connection with the acquisition of the land or land rights.
8. [Reserved.]

9. Leases, cost of voiding upon purchase to secure possession of land.

10. Removing, relocating, or reconstructing, property of others, such as buildings, highways, railroads, bridges, cemeteries, churches, telephone and power lines, etc., in order to acquire quiet possession.

11. Retaining walls unless identified with structures.

12. Special assessments levied by public authorities for public improvements on the basis of benefits for new roads, new bridges, new sewers, new curbing, new pavements, and other public improvements, but not taxes levied to provide for the maintenance of such improvements.

13. Surveys in connection with the acquisition, but not amounts paid for topographical surveys and maps where such costs are attributable to structures or plant equipment erected or to be erected or installed on such land.

14. Taxes assumed, accrued to date of transfer of title.

15. Title, examining, clearing, insuring and registering in connection with the acquisition and defending against claims relating to the period prior to the acquisition.

16. Appraisals prior to closing title.

17. Cost of dealing with distributees or legatees residing outside of the state or county, such as recording power of attorney, recording will or exemplification of will, recording satisfaction of state tax.

18. Filing satisfaction of mortgage.

19. Documentary stamps.

20. Photographs of property at acquisition.

21. Fees and expenses incurred in the acquisition of water rights and grants.

22. Cost of fill to extend bulkhead line over land under water, where riparian rights are held, which is not occasioned by the erection of a structure.

23. Sidewalks and curbs constructed by the utility on public property.

24. Labor and expenses in connection with securing rights of way, where performed by company employees and company agents.

8. Structures and Improvements.

A. The accounts for structures and improvements shall include the cost of all buildings and facilities to house, support, or safeguard property or persons, including all fixtures permanently attached to and made a part of buildings and which cannot be removed therefrom without cutting into the walls, ceilings, or floors, or without in some way impairing the buildings, and improvements of a permanent character on or to land. Also include those costs incurred in connection with the first clearing and grad-

ing of land and rights-of-way and the damage costs associated with construction and installation of plant.

B. The cost of specially provided foundations not intended to outlast the machinery or apparatus for which provided, and the cost of angle irons, castings, etc., installed at the base of an item of equipment, shall be charged to the same account as the cost of the machinery, apparatus, or equipment.

C. Minor buildings and structures, such as valve towers, patrolmen's towers, telephone stations, fish and wildlife, and recreation facilities, etc., which are used directly in connection with or form a part of a reservoir, dam, waterway, etc., shall be considered a part of the facility in connection with which constructed or operated and the cost thereof accounted for accordingly.

D. Where furnaces and boilers are used primarily for furnishing steam for some particular department and only incidentally for furnishing steam for heating a building and operating the equipment therein, the entire cost of such furnaces and boilers shall be charged to the appropriate plant account, and no part to the building account.

E. Where the structure of a dam forms also the foundation of the power plant building, such foundation shall be considered a part of the dam.

F. The cost of disposing of materials excavated in connection with construction of structures shall be considered as a part of the cost of such work, except as follows: (a) When such material is used for filling, the cost of loading, hauling, and dumping shall be equitably apportioned between the work in connection with which the removal occurs and the work in connection with which the material is used; (b) when such material is sold, the net amount realized from such sales shall be credited to the work in connection with which the removal occurs. If the amount realized from the sale of excavated materials exceeds the removal costs and the costs in connection with the sale, the excess shall be credited to the land account in which the site is carried.

G. Lighting or other fixtures temporarily attached to buildings for purposes of display or demonstration shall not be included in the cost of the building but in the appropriate equipment account.

H. The items of cost to be included in the accounts for structures and improvements are as follows:

1. Architects' plans and specifications including supervision.
2. Ash pits (when located within the building). (Major Utilities)
3. Athletic field structures and improvements.
4. Boilers, furnaces, piping, wiring, fixtures, and machinery for heating, lighting, signaling, ventilating, and air-conditioning systems, plumbing, vacuum cleaning systems, incinerator and smoke pipe, flues, etc.
5. Bulkheads, including dredging, riprap fill, piling, decking, concrete, fenders, etc., when exposed and subject to maintenance and replacement.
6. Chimneys (Major Utilities).
7. Coal bins and bunkers.
8. Commissions and fees to brokers, agents, architects, and others.
9. Conduit (not to be removed) with its contents.
10. Damages to abutting property during construction.
11. Docks (Major Utilities).
12. Door checks and door stops (Major Utilities).
13. Drainage and sewerage systems.
14. Elevators, cranes, hoists, etc., and the machinery for operating them.
15. Excavation, including shoring, bracing, bridging, refill and disposal of excess excavated material, cofferdams around foundation, pumping water from cofferdams during construction, and test borings.
16. Fences and fence curbs (not including protective fences isolating items of equipment, which shall be charged to the appropriate equipment account).
17. Fire protection systems when forming a part of a structure.
18. Flagpole (Major Utilities).
19. Floor covering (permanently attached) (Major Utilities).
20. Foundations and piers for machinery, constructed as a permanent part of a building or other item listed herein.
21. Grading and clearing when directly occasioned by the building of a structure.
22. Intrasite communication system, poles, pole fixtures, wires, and cables.
23. Landscaping, lawns, shrubbery, etc.
24. Leases, voiding upon purchase to secure possession of structures.
25. Leased property, expenditures on.

26. Lighting fixtures and outside lighting system.
27. Mallochutes when part of a building (Major Utilities).
28. Marquee, permanently attached to building (Major Utilities).
29. Painting, first cost.
30. Permanent paving, concrete, brick, flagstone, asphalt, etc., within the property lines.
31. Partitions, including movable (Major Utilities).
32. Permits and privileges.
33. Platforms, railings, and gratings when constructed as a part of a structure.
34. Power boards for services to a building (Major Utilities).
35. Refrigerating systems for general use (Major Utilities).
36. Retaining walls except when identified with land.
37. Roadways, railroads, bridges, and trestles intrasite except railroads provided for in equipment accounts.
38. Roofs (Major Utilities).
39. Scales, connected to and forming a part of a structure (Major Utilities).
40. Screens (Major Utilities).
41. Sewer systems, for general use (Major Utilities).
42. Sidewalks, culverts, curbs and streets constructed by the utility on its property (Major Utilities).
43. Sprinkling systems (Major Utilities).
44. Sump pumps and pits (Major Utilities).
45. Stacks—brick, steel, or concrete, when set on foundation forming part of general foundation and steelwork of a building.
46. Steel inspection during construction (Major Utilities).
47. Storage facilities constituting a part of a building.
48. Storm doors and windows (Major Utilities).
49. Subways, areaways, and tunnels, directly connected to and forming part of a structure.
50. Tanks, constructed as part of a building or as a distinct structural unit.
51. Temporary heating during construction (net cost) (Major Utilities).
52. Temporary water connection during construction (net cost) (Major Utilities).
53. Temporary shanties and other facilities used during construction (net cost).
54. Topographical maps (Major Utilities).
55. Tunnels, intake and discharge, when constructed as part of a structure, including sluice gates, and those constructed to house mains.
56. Vaults constructed as part of a building.
57. Watchmen's sheds and clock systems (net cost when used during construction only) (Major Utilities).
58. Water basins or reservoirs.
59. Water front improvements (Major Utilities).
60. Water meters and supply system for a building or for general company purposes (Major Utilities).
61. Water supply piping, hydrants and wells (Major Utilities).
62. Wharves.
63. Window shades and ventilators (Major Utilities).
64. Yard drainage system (Major Utilities).
65. Yard lighting system (Major Utilities).
66. Yard surfacing, gravel, concrete, or oil. (First cost only.) (Major Utilities)

NOTE: Structures and Improvements accounts shall be credited with the cost of coal bunkers, stacks, foundations, subways, tunnels, etc., the use of which has terminated with the removal of the equipment with which they are associated even though they have not been physically removed.

9. Equipment.

A. The cost of equipment chargeable to the electric plant accounts, unless otherwise indicated in the text of an equipment account, includes the net purchase price thereof, sales taxes, investigation and inspection expenses necessary to such purchase, expenses of transportation when borne by the utility, labor employed, materials and supplies consumed, and expenses incurred by the utility in unloading and placing the equipment in readiness to operate. Also include those costs incurred in connection with the first clearing and grading of land and rights-of-way and the damage costs associated with construction and installation of plant.

B. Exclude from equipment accounts hand and other portable tools, which are likely to be lost or stolen or which have relatively small value (for example, \$500 or less) or short life, unless the correctness of the accounting therefor as electric plant is verified by current inventories. Special tools acquired and included in the purchase price of equipment shall be included in the appropriate plant account. Portable drills and similar tool equipment when used in connection with the operation and maintenance of a particular plant or department, such as production, transmission, distribution, etc., or in "stores," shall be charged to the plant account appropriate for their use.

C. The equipment accounts shall include angle irons and similar items which are installed at the base of an item of equipment, but piers and foundations which are designed to be as permanent as the buildings which house the equipment, or which are constructed as a part of the building and which cannot be removed without cutting into the walls, ceilings or floors or without in some way impairing the building, shall be included in the building accounts.

D. The equipment accounts shall include the necessary costs of testing or running a plant or parts thereof during an experimental or test period prior to such plant becoming ready for or placed in service. In the case of Nonmajor utilities, the utility shall pay the fee prescribed in Part 381 of this chapter and shall furnish the Commission with full particulars of and justification for any test or experimental run extending beyond a period of 30 days. In the case of Major utilities, the utility shall furnish the Commission with full particulars of and justification for any test or experimental run extending beyond a period of 120 days for nuclear plant, and a period of 90 days for all other plant. Such particulars shall include a detailed operational and downtime log showing days of production, gross kilowatts generated by hourly increments, types, and periods of outages by hours with explanation thereof, beginning with the first date the equipment was either tested or synchronized on the line to the end of the test period.

E. The cost of efficiency or other tests made subsequent to the date equipment becomes available for service shall be charged to the appropriate expense accounts, except that tests to determine whether equipment meets the specifications and requirements as to efficiency, performance, etc., guaranteed by manufacturers, made after operations have commenced and within the period specified in the agreement or contract of purchase may be charged to the appropriate electric plant account.

10. *Additions and Retirements of Electric Plant.*

A. For the purpose of avoiding undue refinement in accounting for

additions to and retirements and replacements of electric plant, all property shall be considered as consisting of (1) retirement units and (2) minor items of property. Each utility shall use such list of retirement units as is in use by it at the effective date hereof or as may be prescribed by the Commission, with the option, however, of using smaller units, provided the utility's practice in this respect is consistent.

B. The addition and retirement of retirement units shall be accounted for as follows:

(1) When a retirement unit is added to electric plant, the cost thereof shall be added to the appropriate electric plant account, except that when units are acquired in the acquisition of any electric plant constituting an operating system, they shall be accounted for as provided in electric plant instruction 6.

(2) When a retirement unit is retired from electric plant, with or without replacement, the book cost thereof shall be credited to the electric plant account in which it is included, determined in the manner set forth in paragraph D, below. If the retirement unit is of a depreciable class, the book cost of the unit retired and credited to electric plant shall be charged to the accumulated provision for depreciation applicable to such property. The cost of removal and the salvage shall be charged or credited, as appropriate, to such depreciation account.

C. The addition and retirement of minor items of property shall be accounted for as follows:

(1) When a minor item of property which did not previously exist is added to plant, the cost thereof shall be accounted for in the same manner as for the addition of a retirement unit, as set forth in paragraph B(1), above, if a substantial addition results, otherwise the charge shall be to the appropriate maintenance expense account.

(2) When a minor item of property is retired and not replaced, the book cost thereof shall be credited to the electric plant account in which it is included; and, in the event the minor item is a part of depreciable plant, the account for accumulated provision for depreciation shall be charged with the

book cost and cost of removal and credited with the salvage. If, however, the book cost of the minor item retired and not replaced has been or will be accounted for by its inclusion in the retirement unit of which it is a part when such unit is retired, no separate credit to the property account is required when such minor item is retired.

(3) When a minor item of depreciable property is replaced independently of the retirement unit of which it is a part, the cost of replacement shall be charged to the maintenance account appropriate for the item, except that if the replacement effects a substantial betterment (the primary aim of which is to make the property affected more useful, more efficient, of greater durability, or of greater capacity), the excess cost of the replacement over the estimated cost at current prices of replacing without betterment shall be charged to the appropriate electric plant account.

D. The book cost of electric plant retired shall be the amount at which such property is included in the electric plant accounts, including all components of construction costs. The book cost shall be determined from the utility's records and if this cannot be done it shall be estimated. When it is impracticable to determine the book cost of each unit, due to the relatively large number or small cost thereof, an appropriate average book cost of the units, with due allowance for any differences in size and character, shall be used as the book cost of the units retired.

E. The book cost of land retired shall be credited to the appropriate land account. If the land is sold, the difference between the book cost (less any accumulated provision for depreciation or amortization therefore which has been authorized and provided) and the sale price of the land (less commissions and other expenses of making the sale) shall be recorded in account 411.6, Gains from Disposition of Utility Plant, or 411.7, Losses from Disposition of Utility Plant when the property has been recorded in account 105, Electric Plant Held for Future Use, otherwise to accounts 421.1, Gain on Disposition of Property or 421.2,

Loss on Disposition of Property, as appropriate. If the land is not used in utility service but is retained by the utility, the book cost shall be charged to account 105, Electric Plant Held for Future Use, or account 121, Nonutility Property, as appropriate.

F. The book cost less net salvage of depreciable electric plant retired shall be charged in its entirety to account 108, Accumulated Provision for Depreciation of Electric Plant in Service (Account 110, Accumulated Provision for Depreciation and Amortization of Electric Utility Plant, in the case of Nonmajor utilities). Any amounts which, by approval or order of the Commission, are charged to account 182.1, Extraordinary Property Losses, shall be credited to account 108 (Account 110 for Nonmajor utilities).

G. In the case of Major utilities, the accounting for the retirement of amounts included in account 302, Franchises and Consents, and account 303, Miscellaneous Intangible Plant, and the items of limited-term interest in land included in the accounts for land and land rights, shall be as provided for in the text of account 111, Accumulated Provision for Amortization of Electric Plant in Service, account 404, Amortization of Limited-Term Electric Plant, and account 405, Amortization of Other Electric Plant.

11. *Work Order and Property Record System Required.*

A. Each utility shall record all construction and retirements of electric plant by means of work orders or job orders. Separate work orders may be opened for additions to and retirements of electric plant or the retirements may be included with the construction work order, provided, however, that all items relating to the retirements shall be kept separate from those relating to construction and provided, further, that any maintenance costs involved in the work shall likewise be segregated.

B. Each utility shall keep its work order system so as to show the nature of each addition to or retirement of electric plant, the total cost thereof, the source or sources of costs, and the electric plant account or accounts to which charged or credited. Work

orders covering jobs of short duration may be cleared monthly.

C. In the case of Major utilities, each utility shall maintain records in which, for each plant account, the amounts of the annual additions and retirements, subsequent to the effective date of this system of accounts, are classified so as to show the number and cost of the various record units or retirement units.

12. *Transfers of Property.*

When property is transferred from one electric plant account to another, from one utility department to another, such as from electric to gas, from one operating division or area to another, to or from accounts 101, Electric Plant in Service, 104, Electric Plant Leased to Others, 105, Electric Plant Held for Future Use, and 121, Nonutility Property, the transfer shall be recorded by transferring the original cost thereof from the one account, department, or location to the other. Any related amounts carried in the accounts for accumulated provision for depreciation or amortization shall be transferred in accordance with the segregation of such accounts.

13. *Common Utility Plant.*

A. If the utility is engaged in more than one utility service, such as electric, gas, and water, and any of its utility plant is used in common for several utility services or for other purposes to such an extent and in such manner that it is impracticable to segregate it by utility services currently in the accounts, such property, with the approval of the Commission, may be designated and classified as "common utility plant."

B. The book amount of utility plant designated as common plant shall be included in account 118, Other Utility Plant, and if applicable in part to the electric department, shall be segregated and accounted for in subaccounts as electric plant is accounted for in accounts 101 to 107, inclusive, and electric plant adjustments in account 118; any amounts classifiable as common plant acquisition adjustments or common plant adjustments shall be subject to disposition as provided in paragraphs C and B of accounts 114 and 116, respectively, for amounts classified in those accounts. The origi-

nal cost of common utility plant in service shall be classified according to detailed utility plant accounts appropriate for the property.

C. The utility shall be prepared to show at any time and to report to the Commission annually, or more frequently, if required, and by utility plant accounts (301 to 399) the following: (1) The book cost of common utility plant, (2) The allocation of such cost to the respective departments using the common utility plant, and (3) The basis of the allocation.

D. The accumulated provision for depreciation and amortization of the utility shall be segregated so as to show the amount applicable to the property classified as common utility plant.

E. The expenses of operation, maintenance, rents, depreciation and amortization of common utility plant shall be recorded in the accounts prescribed herein, but designated as common expenses, and the allocation of such expenses to the departments using the common utility plant shall be supported in such manner as to reflect readily the basis of allocation used.

14. *Transmission and Distribution Plant.*

For the purpose of this system of accounts:

A. "Transmission system" means:

(1) All land, conversion structures, and equipment employed at a primary source of supply (i.e., generating station, or point of receipt in the case of purchased power) to change the voltage or frequency of electricity for the purpose of its more efficient or convenient transmission;

(2) All land, structures, lines, switching and conversion stations, high tension apparatus, and their control and protective equipment between a generating or receiving point and the entrance to a distribution center or wholesale point; and

(3) All lines and equipment whose primary purpose is to augment, integrate or tie together the sources of power supply

B. "Distribution system" means all land, structures, conversion equipment, lines, line transformers, and other facilities employed between the primary source of supply (i.e., generat-

ing station, or point of receipt in the case of purchased power) and of delivery to customers, which are not includible in transmission system, as defined in paragraph A, whether or not such land, structures, and facilities are operated as part of a transmission system or as part of a distribution system.

Note: Stations which change electricity from transmission to distribution voltage shall be classified as distribution stations.

C. Where poles or towers support both transmission and distribution conductors, the poles, towers, anchors, guys, and rights of way shall be classified as transmission system. The conductors, crossarms, braces, grounds, tie wire, insulators, etc., shall be classified as transmission or distribution facilities, according to the purpose for which used.

D. Where underground conduit contains both transmission and distribution conductors, the underground conduit and right of way shall be classified as distribution system. The conductors shall be classified as transmission or distribution facilities according to the purpose for which used.

E. Land (other than rights of way) and structures used jointly for transmission and distribution purposes shall be classified as transmission or distribution according to the major use thereof.

15. *Hydraulic production plant (Major Utilities).*

For the purpose of this system of accounts hydraulic production plant means all land and land rights, structures and improvements used in connection with hydraulic power generation, reservoirs dams and waterways, water wheels, turbines, generators, accessory electric equipment, miscellaneous powerplant equipment, roads, railroads, and bridges, and structures and improvements used in connection with fish and wildlife, and recreation.

16. *Nuclear Fuel Records Required (Major Utilities).*

Each utility shall keep all the necessary records to support the entries to the various nuclear fuel plant accounts classified under "Assets and Other Debits," Utility Plant 120.1 through 120.6, inclusive, account 518, Nuclear Fuel Expense and account

157, Nuclear Materials Held for Sale. These records shall be so kept as to readily furnish the basis of the computation of the net nuclear fuel costs.

Operating Expense Instructions

1. *Supervision and Engineering (Major Utilities).*

The supervision and engineering includible in the operating expense accounts shall consist of the pay and expenses of superintendents, engineers, clerks, other employees and consultants engaged in supervising and directing the operation and maintenance of each utility function. Wherever allocations are necessary in order to arrive at the amount to be included in any account, the method and basis of allocation shall be reflected by underlying records.

ITEMS

Labor

1. Special tests to determine efficiency of equipment operation.
2. Preparing or reviewing budgets, estimates, and drawings relating to operation or maintenance for departmental approval.
3. Preparing instructions for operations and maintenance activities.
4. Reviewing and analyzing operating results.
5. Establishing organizational setup of departments and executing changes therein.
6. Formulating and reviewing routines of departments and executing changes therein.
7. General training and instruction of employees by supervisors whose pay is chargeable hereto. Specific instruction and training in a particular type of work is chargeable to the appropriate functional account (See Electric Plant Instruction 3(19)).
8. Secretarial work for supervisory personnel, but not general clerical and stenographic work chargeable to other accounts.

Expenses

9. Consultants' fees and expenses.
10. Meals, traveling and incidental expenses.

2. *Maintenance.*

A. The cost of maintenance chargeable to the various operating expense and clearing accounts includes labor, materials, overheads and other expenses incurred in maintenance work. A list of work operations applicable generally to utility plant is included

hereunder. Other work operations applicable to specific classes of plant are listed in functional maintenance expense accounts:

B. Materials recovered in connection with the maintenance of property shall be credited to the same account to which the maintenance cost was charged.

C. If the book cost of any property is carried in account 102, Electric Plant Purchased or Sold, the cost of maintaining such property shall be charged to the accounts for maintenance of property of the same class and use, the book cost of which is carried in other electric plant in service accounts. Maintenance of property leased from others shall be treated as provided in operating expense instruction 3.

ITEMS

1. Direct field supervision of maintenance.
2. Inspecting, testing, and reporting on condition of plant specifically to determine the need for repairs, replacements, rearrangements and changes and inspecting and testing the adequacy of repairs which have been made.
3. Work performed specifically for the purpose of preventing failure, restoring serviceability or maintaining life of plant.
4. Rearranging and changing the location of plant not retired.
5. Repairing for reuse materials recovered from plant.
6. Testing for locating and clearing trouble.
7. Net cost of installing, maintaining, and removing temporary facilities to prevent interruptions in service.
8. Replacing or adding minor items of plant which do not constitute a retirement unit. (See electric plant instruction 10.)

3. Rents.

A. The rent expense accounts provided under the several functional groups of expense accounts shall include all rents, including taxes paid by the lessee on leased property, for property used in utility operations, except (1) minor amounts paid for occasional or infrequent use of any property or equipment and all amounts paid for use of equipment that, if owned, would be includible in plant accounts 391 to 398; inclusive, which shall be treated as an expense item and included in the appropriate functional account and (2) rents which are chargeable to clearing

accounts, and distributed therefrom to the appropriate account. If rents cover property used for more than one function, such as production and transmission, or by more than one department, the rents shall be apportioned to the appropriate rent expense or clearing accounts of each department on an actual, or, if necessary, an estimated basis.

B. When a portion of property or equipment rented from others for use in connection with utility operations is subleased, the revenue derived from such subleasing shall be credited to the rent revenue account in operating revenues; provided, however, that in case the rent was charged to a clearing account, amounts received from subleasing the property shall be credited to such clearing account.

C. The cost, when incurred by the lessee, of operating and maintaining leased property, shall be charged to the accounts appropriate for the expense if the property were owned.

D. The cost incurred by the lessee of additions and replacements to electric plant leased from others shall be accounted for as provided in electric plant instruction 6.

4. Training Costs.

When it is necessary that employees be trained to specifically operate or maintain plant facilities that are being constructed, the related costs shall be accounted for as a current operating and maintenance expense. These expenses shall be charged to the appropriate functional accounts currently as they are incurred. However, when the training costs involved relate to facilities which are not conventional in nature, or are new to the company's operations, then see Electric Plant Instruction 3(19), for accounting.

Balance Sheet Chart of Accounts

ASSETS AND OTHER DEBITS

1. UTILITY PLANT

- 101 Electric plant in service.
- 101.1 Property under capital leases.
- 102 Electric plant purchased or sold.
- 103 Experimental electric plant unclassified (Major only).
- 103.1 Electric plant in process of reclassification (Nonmajor only).
- 104 Electric plant leased to others.

108 Accumulated provision for depreciation of electric utility plant (Major only).

A. This account shall be credited with the following:

(1) Amounts charged to account 403, Depreciation Expense, or to clearing accounts for current depreciation expense for electric plant in service.

(2) Amounts charged to account 421, Miscellaneous Nonoperating Income, for depreciation expense on property included in account 105, Electric Plant Held for Future Use. Include, also, the balance of accumulated provision for depreciation on property when transferred to account 105, Electric Plant Held for Future Use, from other property accounts. Normally account 108 will not be used for current depreciation provisions because, as provided herein, the service life during which depreciation is computed commences with the date property is includible in electric plant in service; however, if special circumstances indicate the propriety of current accruals for depreciation, such charges shall be made to account 421, Miscellaneous Nonoperating Income.

(3) Amounts charged to account 413, Expenses of Electric Plant Leased to Others, for electric plant included in account 104, Electric Plant Leased to Others.

(4) Amounts charged to account 416, Costs and Expenses of Merchandising, Jobbing, and Contract Work, or to clearing accounts for current depreciation expense.

(5) Amounts of depreciation applicable to electric properties acquired as operating units or systems. (See electric plant instruction 5.)

(6) Amounts charged to account 182, Extraordinary Property Losses, when authorized by the Commission.

(7) Amounts of depreciation applicable to electric plant donated to the utility.

(The utility shall maintain separate subaccounts for depreciation applicable to electric plant in service, electric plant leased to others and electric plant held for future use.)

B. At the time of retirement of depreciable electric utility plant, this account shall be charged with the book cost of the property retired and the

cost of removal and shall be credited with the salvage value and any other amounts recovered, such as insurance. When retirement, costs of removal and salvage are entered originally in retirement work orders, the net total of such work orders may be included in a separate subaccount hereunder. Upon completion of the work order, the proper distribution to subdivisions of this account shall be made as provided in the following paragraph.

C. For general ledger and balance sheet purposes, this account shall be regarded and treated as a single composite provision for depreciation. For purposes of analysis, however, each utility shall maintain subsidiary records in which this account is segregated according to the following functional classification for electric plant: (1) Steam production, (2) Nuclear production, (3) Hydraulic production, (4) Other production, (5) Transmission, (6) Distribution, and (7) General. These subsidiary records shall reflect the current credits and debits to this account in sufficient detail to show separately for each such functional classification (a) the amount of accrual for depreciation, (b) the book cost of property retired, (c) cost of removal, (d) salvage, and (e) other items, including recoveries from insurance.

D. When transfers of plant are made from one electric plant account to another, or from or to another utility department, or from or to nonutility property accounts, the accounting for the related accumulated provision for depreciation shall be as provided in electric plant instruction 12.

E. The utility is restricted in its use of the accumulated provision for depreciation to the purposes set forth above. It shall not transfer any portion of this account to retained earnings or make any other use thereof without authorization by the Commission.

109 [Reserved]

110 Accumulated provision for depreciation and amortization of electric utility plant (Nonmajor only).

A. This account shall be credited with the following:

Part 101

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- 409.1 Income taxes, utility operating income.
- 410 [Reserved]
- 410.1 Provisions for deferred income taxes, utility operating income.
- 411 [Reserved]
- 411.1 Provision for deferred income taxes—Credit, utility operating income.
- 411.3 [Reserved]
- 411.4 Investment tax credit adjustments, utility operations.
- 411.6 Gains from disposition of utility plant.
- 411.7 Losses from disposition of utility plant.
- 412 Revenues from electric plant leased to others.
- 413 Expenses of electric plant leased to others.
- 414 Other utility operating income.

2. OTHER INCOME AND DEDUCTIONS

A. OTHER INCOME

- 415 Revenues from merchandising, jobbing, and contract work.
- 416 Costs and expenses of merchandising, jobbing, and contract work.
- 417 Revenues from nonutility operations.
- 417.1 Expenses of nonutility operations.
- 418 Nonoperating rental income.
- 418.1 Equity in earnings of subsidiary companies (Major only).
- 419 Interest and dividend income.
- 419.1 Allowance for other funds used during construction.
- 421 Miscellaneous nonoperating income.
- 421.1 Gain on disposition of property.

B. OTHER INCOME DEDUCTIONS

- 421.2 Loss on disposition of property.
- 425 Miscellaneous amortization.
- 426 [Reserved]
- 426.1 Donations.
- 426.2 Life insurance.
- 426.3 Penalties.
- 426.4 Expenditures for certain civic, political and related activities.
- 426.5 Other deductions.
 - Total other income deductions.
 - Total Other Income and Deductions.

C. TAXES APPLICABLE TO OTHER INCOME AND DEDUCTIONS

- 408.2 Taxes other than income taxes, other income and deductions.
- 409.2 Income tax, other income and deductions.
- 410.2 Provision for deferred income taxes, other income and deductions.
- 411.2 Provision for deferred income taxes—Credit, other income and deductions.
- 411.5 Investment tax credit adjustments, nonutility operations.
- 420 Investment tax credits.

Total taxes on other income and deductions.

Net other income and deductions.

3. INTEREST CHARGES

- 427 Interest on long-term debt.
- 428 Amortization of debt discount and expense.
- 428.1 Amortization of loss on reacquired debt.
- 429 Amortization of premium on debt—Cr.
- 429.1 Amortization of gain on reacquired debt—Credit.
- 430 Interest on debt to associated companies.
- 431 Other interest expense.
- 432 Allowance for borrowed funds used during construction—Credit.

4. EXTRAORDINARY ITEMS

- 434 Extraordinary income.
- 435 Extraordinary deductions.
- 409.3 Income taxes, extraordinary items.
 - Net income.

Income Accounts

- 400 Operating revenues.

There shall be shown under this caption the total amount included in the electric operating revenue accounts provided herein.

- 401 Operation expense.

There shall be shown under this caption the total amount included in the electric operation expense accounts provided herein. (See note to operating expense instruction 3.)

- 402 Maintenance expense.

There shall be shown under this caption the total amount included in the electric maintenance expense accounts provided herein.

- 403 Depreciation expense.

A. This account shall include the amount of depreciation expense for all classes of depreciable electric plant in service except such depreciation expense as is chargeable to clearing accounts or to account 416, Costs and Expenses of Merchandising, Jobbing and Contract Work.

B. The utility shall keep such records of property and property retirements as will reflect the service life of property which has been retired and aid in estimating probable service

life by mortality, turnover, or other appropriate methods; and also such records as will reflect the percentage of salvage and costs of removal for property retired from each account, or subdivision thereof, for depreciable electric plant.

NOTE A: Depreciation expense applicable to property included in account 104, Electric Plant Leased to Others, shall be charged to account 413, Expenses of Electric Plant Leased to Others.

NOTE B: Depreciation expenses applicable to transportation equipment, shop equipment, tools, work equipment, power operated equipment and other general equipment may be charged to clearing accounts as necessary in order to obtain a proper distribution of expenses between construction and operation.

NOTE C: Depreciation expense applicable to transportation equipment used for transportation of fuel from the point of acquisition to the unloading point shall be charged to Account 151, Fuel Stock.

404 Amortization of limited-term electric plant.

This account shall include amortization charges applicable to amounts included in the electric plant accounts for limited-term franchises, licenses, patent rights, limited-term interests in land, and expenditures on leased property where the service life of the improvements is terminable by action of the lease. The charges to this account shall be such as to distribute the book cost of each investment as evenly as may be over the period of its benefit to the utility.

(See account 111, Accumulated Provision for Amortization of Electric Utility Plant.)

405 Amortization of other electric plant.

A. When authorized by the Commission, this account shall include charges for amortization of intangible or other electric utility plant which does not have a definite or terminable life and which is not subject to charges for depreciation expense.

B. This account shall be supported in such detail as to show the amortization applicable to each investment being amortized, together with the book cost of the investment and the period over which it is being written off.

406 Amortization of electric plant acquisition adjustments.

This account shall be debited or credited, as the case may be, with amounts includible in operating expenses, pursuant to approval or order of the Commission, for the purpose of providing for the extinguishment of the amount in account 114, Electric Plant Acquisition Adjustments.

407 Amortization of property losses, unrecovered plant and regulatory study costs.

This account shall be charged with amounts credited to account 182.1, Extraordinary Property Losses, and account 182.2, Unrecovered Plant and Regulatory Study Costs, when the Commission has authorized the amount in the latter account to be amortized by charges to electric operations.

408 [Reserved]

SPECIAL INSTRUCTIONS, ACCOUNTS 408.1 AND 408.2

A. These accounts shall include the amounts of ad valorem, gross revenue or gross receipts taxes, state unemployment insurance, franchise taxes, Federal excise taxes, social security taxes, and all other taxes assessed by Federal, state, county, municipal, or other local governmental authorities, except income taxes.

B. These accounts shall be charged in each accounting period with the amounts of taxes which are applicable thereto, with concurrent credits to account 236, Taxes Accrued, or account 165, Prepayments, as appropriate. When it is not possible to determine the exact amounts of taxes, the amounts shall be estimated and adjustments made in current accruals as the actual tax levies become known.

C. The charges to these accounts shall be made or supported so as to show the amount of each tax and the basis upon which each charge is made. In the case of a utility rendering more than one utility service, taxes of the kind includible in these accounts shall be assigned directly to the utility department the operation of which gave rise to the tax in so far as practicable. Where the tax is not attributable to a specific utility department, it shall be distributed among the utility departments or nonutility operations on an equitable basis after appropriate study to determine such basis.

NOTE 1: Special assessments for street and similar improvements shall be included in