BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Accounting, Financial Reporting	)	
And Rate Filing Requirements	)	Docket No. RM02-7-000
For Asset Retirement Obligations	)	

COMMENTS OF THE

NATIONAL ASSOCIATION OF STATE UTILITY CONSUMER ADVOCATES

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I. Introduction

The National Association of State Utility Consumer Advocates ("NASUCA") is a national association of state-funded consumer advocate offices with members in 42 states and the District of Columbia. NASUCA's members are charged with the responsibility to represent retail consumers in utility proceedings before state and federal regulatory commissions and courts.

The following comments are submitted in response to the Notice of Proposed Rulemaking ("NOPR") issued on October 30, 2002 by the Federal Energy Regulatory Commission ("FERC" or "the Commission") in the above referenced proceeding. In its NOPR, the Commission proposes to establish uniform accounting and financial reporting for the regulation and measurement of liabilities arising from retirement and decommissioning obligations of tangible long-lived assets and the related capitalized costs. The Commission also proposes to add new income statement accounts to the Uniform System of Accounts ("USOA") to record the accretion of the liability and the depreciation of the related capitalized costs. The Commission proposes to add or revise the definitions, general and plant instructions, and balance sheet and income statement accounts contained in the USOA. Finally, the Commission proposes to revise its rate filing requirements to incorporate its proposed changes in the USOA.

II. Summary

NASUCA supports the Commission's recognition of recent changes in accounting practices with respect to Asset Retirement Obligations ("AROs"). There is substantial theoretical and practical merit to the principles underlying these changes which provide a mechanism for ensuring that companies' balance sheets and income statements more clearly reflect the economic realities of retirement obligations associated with long-lived assets. If a company has a legal obligation to incur costs to remove an asset at its retirement, the net present value of those costs is part of the ultimate cost of the asset and should be recovered by charges to depreciation expense over the life of the asset.

On the other hand, if a company does not have a legal retirement obligation, or if it is unable to quantify reasonably the net present value of such an obligation, then it should not treat prospective retirement costs as AROs. In the absence of AROs, the retirement costs should be either capitalized as part of the replacement assets, or if not replaced, the costs should be expensed as incurred. Absent valid reasons otherwise, utility accounting should match that of competitive enterprises. It is highly unlikely that any competitive entity would burden its current operating costs with a future cost for which it has no legal obligation.

NASUCA also agrees with the Commission's proposed changes in the USOA and in the rate filing requirements – as far as they go. Most gas and electric distribution companies, however, do not have AROs because the do not have legal or contractual obligations to incur retirement costs, or they are unable to reasonably measure such obligations. The weakness of the NOPR is that it does not deal with the treatment of retirement costs that do not qualify as AROs. Rather, it leaves in place a loophole that will permit the continued practice of distorting net income by charging (recovering) these non-ARO retirement costs through inflated depreciation charges.

As used by most utilities, current practices for recovering retirement costs are wholly inconsistent with the principles and the accounting treatment of AROs as set forth

in Statement of Financial Account Standards No. 143 ("SFAS 143"). They result in much more accelerated recovery for non-ARO retirement costs than for ARO retirement costs to the disadvantage of ultimate consumers. These practices also can, and sometimes do result in the anomalous condition where the depreciation reserve balance exceeds the plant balance.

NASUCA proposes additional modifications that exclude the recovery of non-ARO retirement costs through depreciation expense and that provide clear guidance as to treatment of retirement costs that do not qualify as AROs. In the process, these modifications eliminate an internal contradiction within the existing USOA regarding the treatment of removal costs associated with asset replacements.

III. The Definition and Treatment of ARO Retirement Costs of Gas and Electric Distribution Companies.

This NOPR eliminates the disparity between regulatory accounting and financial accounting for FERC-regulated entities that would otherwise result from the mandatory effectiveness of SFAS 143 for all financial statements for fiscal years beginning after June 15, 2002.[1] Absent the rule changes proposed by this NOPR, regulated entities subject to Financial Accounting Standard No. 71, *Accounting for the Effects of Certain Types of Regulation,* would be required to report in their financial statements a regulatory asset or liability for the differences in the timing of recognition of the period costs associated with AROs under regulation and under SFAS 143.

The Commission's proposed rules permit regulatory accounting to match financial accounting for purposes of SFAS 143. They establish the appropriate balance sheet and income statement accounts to implement SFAS 143. Indeed, the definition of an ARO is taken word for word from paragraph 2 of SFAS 143.

[1] *Statement of Financial Accounting Standards No. 143* ("SFAS 143"), Financial Accounting Standards Board, June 2001.

NASUCA believes that these changes will result in a better matching of expense to the appropriate periods. Therefore, NASUCA supports adoption of the components of the proposed rules that deal with the recording of AROs, the implementation of ARO accounting, and the recognition of ARO accretion in the income statement.

IV. The Definition and Treatment of Retirement Costs Not Related to Asset Retirement Obligations.

The NOPR recognizes that not all removal costs are AROs, and it requires utilities to identify separately these non-ARO retirement costs. It deals with them only to the extent of requiring that depreciation associated with non-ARO asset retirement costs be broken out into a separate subaccount of accumulated depreciation, and then only for gas and oil pipeline companies. Yet, as discussed below, the current accounting treatment for most non-ARO retirement costs is wholly inconsistent with the treatment of AROs, it is internally inconsistent with the definitions section of the USOA, and it invites utilities to "game" their measurements of and accounting for asset removal costs to their advantage and to the disadvantage of consumers.

A. The Retirement Costs of Most Utility Plant Do Not Qualify as Asset Retirement Obligations.

Aside from nuclear decommissioning costs, it is difficult to identify any major category of the retirement costs of electric or gas utilities that would qualify for ARO status. While the utilities report that they incur substantial removal costs, few of these costs are incurred "as a result of an existing or enacted law, statute, ordinance, or written or oral contract or by legal construction of a contract under the doctrine of promissory estoppel."[2]

The removal costs of most transmission and distribution plant – both electric and gas – are incurred principally because the plant must be replaced. The plant must be

[2] *Id.* ¶2,

replaced either because it is physically exhausted or technologically obsolete, or because it has insufficient capacity to handle the predicted growth in load. In neither case is there any legal or contractual obligation to incur the removal costs.

The removal of electric or gas production plant is even less compulsory. In fact, most steam electric production plant is not dismantled at all when it is retired. *Attachment A hereto is a summary of a survey conducted by the economic consulting* firm of Snavely King Majoros O'Connor & Lee, Inc. The survey covers steam generating units over 50 MW that were retired nationwide between 1982 and 2001. Conducted in 2001, the survey was able to determine the then present status of 132 out of the 143 steam generating units that fit this description. Only 41 of these plants had actually been dismantled, and of these only six had been so fully dismantled that the site was returned to its original "greenfield" condition. Eighty-five, or 64 percent of the retired generating units remain in place without dismantlement, and eight of those retired units have subsequently been repowered and put back into service.

Thus, even if an arguable case could be made that there is an ultimate legal obligation to dismantle steam generating plants, the present value of the ARO would be difficult, if not impossible to measure because the dismantlement date of most of these plants is totally indeterminate. A reasonable estimate of the removal date is required for all AROs in order to establish their present value.

B. The Current Depreciation Treatment of Most Non-ARO Retirement Costs Is Inconsistent with the Practices and Principles of SFAS 143.

SFAS 143 is relevant not only to retirement costs that qualify as AROs. It is also relevant to retirement costs that do not qualify as AROs. At present, most electric and gas utilities increase their depreciation rates for inflated estimates of future removal costs and collect these amounts through increased depreciation expense. The increased depreciation expense is recorded in the accumulated depreciation accounts. This practice results in total depreciation expense which is ultimately greater than the

original cost of each asset. Eventually, accumulated depreciation for any given asset will exceed the original cost of that asset. The NOPR will cure this anomalous condition for assets whose retirement costs qualify for ARO status. It does not resolve this anomaly for retirement costs that do not qualify as AROs.

The anomaly flows from the interplay of several of the USOA's definitions. Definition 12 defines "*Depreciation,* ... as the loss in service value ...etc." Definition 36 states that "*Service value* means the difference between original cost and net salvage value of electric plant." Under definition 19 "*Net salvage value* means the salvage value of property retired less the cost of removal." In the absence of any positive salvage value, these definitions result in the service value of an asset becoming its original cost plus the estimated future cost of removal. The consequent depreciation expense is designed to recover substantially more than the original cost. The principles underlying SFAS 143 would only allow such an approach when there is a legal obligation to incur future retirement cost and when the net present value of that cost can be quantified.

Although the NOPR seems to maintain the principles of SFAS 143 throughout, it also provides an opportunity to deviate from those principles -- a "loophole" through which many utilities will drive a truck. The NOPR states that the Commission is aware that a number of natural gas and oil pipeline companies are currently collecting an *allowance* in jurisdictional [depreciation] rates to recover the future cost of retiring and removing facilities. The NOPR recognizes that these allowances do not necessarily reflect AROs. And yet, rather than prohibiting such allowances consistent with basic principles of SFAS 143, the NOPR proposes they be separately identified in depreciation expense and accumulated depreciation subaccounts.

This inconsistency should be eliminated. If an ARO exists, its net present value should be recovered through depreciation as a cost of the asset. If an ARO does not exist, then only the original cost of the asset less gross salvage should be recovered through depreciation. Any incidental retirement costs should either be capitalized as

part of the replacement cost of an asset, or charged to expense in the case of unreplaced abandonments. This approach is consistent in substance and form with the basic principles of SFAS No. 143. To do otherwise will invite utilities to continue to include inflated non-ARO costs in their jurisdictional depreciation expenses. Not only will operating income be distorted, the utilities will point to the USOA as the support for this practice.

C. The Present Procedures Used by Many Utilities for Calculating Net Salvage Allowances Accelerate the Recovery of non-ARO Retirement Costs Relative to ARO Retirement Costs.

As indicated above, the NOPR proposes to identify non-ARO net salvage allowances and provide separate accounting for them. Inexplicably, these provisions apply only to gas and oil pipeline companies but not to electric utilities. Unless one assumes that all retirement costs of electric utilities are associated with AROs, this exclusion does not seem reasonable. At a minimum, the same requirements should be applied to all types of utilities subject to the Commission's jurisdiction.[3]

If the final rule is to maintain the loophole that allows utilities to continue to collect estimated non-ARO retirement costs through depreciation, the recovery of those estimated non-ARO retirement costs should not be more accelerated than that for ARO retirement costs.

There are broadly three procedures by which removal costs, sometimes called "negative salvage," are included in depreciation. They are (1) negative salvage ratios, (2) dismantlement studies, and (3) normalized expense allowances. Only the last of these procedures may be considered consistent with SFAS 143's treatment of AROs.

[3] NASUCA's members are involved in electric and gas utility proceedings, but not oil pipeline cases. For this reason, NASUCA will not address the oil pipeline portions of the NOPR. However, many of NASUCA's comments regarding electric and gas utilities and their accounting are probably relevant to oil pipelines as well.

The other two recover removal costs on a much more accelerated basis than does SFAS 143.

1. Negative Salvage Ratios

A negative salvage ratio is a fraction, the numerator of which is recent removal cost experience, and the denominator is the original cost of the assets recently retired. For very long-lived assets, this procedure compares dollars of very different buying power. The numerator, recent removal cost, is represented in dollars of recent value, say the last five years. The denominator, original cost, may represent dollars expended over a period extending many decades back into history. Those very old dollars in the denominator had far greater value than the much newer dollars in the numerator. The result is a very large fraction. Indeed, the NARUC publication, *Public Utility Depreciation Practices,* states that in some cases the negative net salvage exceeds the original cost of the plant.[4] This is presumably why some state commissions have abandoned the negative salvage ratio procedure and moved to current-period accounting for cost of removal.[5]

The negative salvage ratio developed in the manner just described is incorporated into depreciation by increasing the depreciation rate so as to recover not just the original cost of the plant, but the original cost plus an estimated markup of that cost to represent the anticipated removal cost.

As a simplified example, assume that assets placed in 1960 had an average original cost of $1000 dollars, and that they were removed in 2000 for an average cost of $1000. The utilities would use this historical experience to develop a negative salvage ratio of 100 percent. That ratio would then be applied to all existing plant. If existing assets are expected to survive the same 40 years as the recently retired assets, then their

[4] National Association of Regulatory Utility Commissioners, *Public Utility Depreciation Practices*, August 1996, page 158.

[5] Id., p. 157.

straight-line depreciation rate is 1/40, or 2.5 percent. The application of the 100 percent negative salvage ratio doubles that rate to 5 percent.

Aside from its assumption of single-vintage retirements, this illustration conforms to the procedure conventionally used by utilities to develop and apply negative salvage ratios. The result is a valuation of future retirement costs that not only fails to reflect their discounted present value – as required for AROs – but it extrapolates past inflation into the future. This approach to removal cost valuation is also at odds with the "going-concern" principle fundamental of utility regulation, and it is almost impossible to measure due to the uncertainty of the timing and cost of future retirements.

In the illustration above, the assets upon which the negative salvage ratio was calculated were placed in 1960 and retired in 2000. Between 1960 and 2000, cumulative inflation was over 300 percent. When the 100 percent negative salvage ratio is applied to plant that was place in the year 2000, then the 300 percent inflation between 1960 and 2000 is extrapolated out to the year 2040 when the recently placed plant is expected to retire.

There might be some justification for using past inflation to predict future inflation and hence the removal cost forty years out -- although this assumption is increasingly challengeable due to declining inflation in recent years. But the negative salvage procedure does not restate the future removal cost to its present value. Rather, it recovers that distant future cost in current dollars. This practice is contrary to the measurement principles of SFAS 143, which require that all retirement costs be discounted over the life of the asset to their net present value. NASUCA submits that the current procedure for calculating and applying negative salvage ratios is grossly unfair to consumers, who are required to pay for distant future retirement costs as though they were being incurred today. This practice should be disallowed. At a minimum, it should not be encouraged or even inferentially endorsed through the wording of the USOA.

2. Dismantlement Studies

Electric utilities that have retained regulated generation assets and that use the life span method for estimating the service lives of these assets[6] typically provide studies of the cost of dismantling those assets. The costs estimated in these studies are then added to the original cost of the plants for purposes of determining the depreciation rate.

Dismantlement studies estimate, often in considerable detail, the cost of dismantling each generating unit and, separately, the common plant at each generating location. The dismantlement may be back to "greenfield" status, that is, to the physical condition of the property prior to the construction of the plant, or alternatively to "powerhouse" status, where the access facilities and supporting structures are retained in anticipation of the construction of a new plant.

These dismantlement studies are usually expressed in dollars of current value. As such, they are inconsistent with both the negative salvage ratio procedure, which expresses removal costs in future value, and with SFAS 143, which expresses removal costs in future value discounted to the present. The SFAS 143 procedure yields lower costs than those stated in dismantlement studies because the discount factor used to restate future costs to present value includes both the effect of anticipated inflation and the pure time value of money. Again, NASUCA submits that the procedure used by many utilities for recovering dismantlement costs is unfair to ratepayers because it obliges them to pay in current dollars for costs that will not be incurred for many years.

An argument might be made that the SFAS 143 procedure could be applied to the results of the dismantlement studies by extrapolating those costs for inflation to the retirement date of the plant and then discounting them back to the present. The difficulty is that, because there is no ARO, there is no obligation for the utility to dismantle the plants. As the Snavely King Study has shown, the majority of steam generating units are

[6] For a description of the life span method, see NARUC *Public Utility Depreciation Practices*, August 1996, Chapter X.

not dismantled at retirement, and the time of dismantlement, if it ever occurs, is totally indeterminate. In the absence of any reasonable estimate of the time when future costs will be incurred, the SFAS 143 procedure becomes unworkable.

D. Only the Normalized Expensing Procedure for Computing Removal Cost Allowances Is Consistent with SFAS 143.

The third treatment of non-ARO removal costs is to expense them as they are incurred. Because there is often some lag between retirement and the incurrence or recordation of removal costs, and because these costs typically vary from year to year, the usual procedure is to "normalize" the expense by using the average of a five-year band of removal costs in much the same way an operating expense would be normalized. This average is added to the corresponding depreciation expense to become the removal cost allowance that is incorporated into depreciation rate.

This procedure is required by law in Pennsylvania, where the state courts found that recovery of costs not yet incurred is unlawful.[7] It also recently been adopted by the Missouri Public Service Commission,[8] and in some recent cases by the Kentucky Public Service Commission.[9] The practice is strongly resisted by the utilities because it deprives them of the opportunity of recovering future removal costs in current depreciation charges. For the same reason, NASUCA submits that this practice is fairest to both the utilities and ratepayers. It is also the only procedure for recovering non-ARO retirement costs that is consistent with the principles of SFAS 143.

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[7] *Penn Sheraton et. al. v. Pennsylvania Public Utilities Commission.* 198 Pa.Super.618, 184 A.2d. 234 (1962).

[8] See I/M/O Laclede Gas Company's Tariff to Revise Natural Gas Rate Schedules, Missouri P.S.C. Case No. GR-99-315, Second Report and Order. Issued June 28, 2001.

[9] I/M/O The Application of Jackson Energy Cooperative for an Adjustment of Rates, Case No. 2000-373, Order Issued May 21m 2001; and I/M/O Adjustment of Rates of Fleming-Mason Cooperative, Kentucky P.S.C. Case No. 2001-00244, Order Issued August 7, 2002.

Normalized expense allowances are consistent with SFAS 143 because they recognize that when AROs do not exist, removal costs should be treated as annual operating expenses rather than as capital costs. As a practical matter, the SFAS 143 method of discounting future removal costs back to the present is not feasible for long-lived mass property plant accounts, such as the major distribution accounts of electric and gas utilities. The removal costs for these accounts do not qualify as AROs, and even if they did, it would be extraordinarily difficult to identify, project into the future, and then calculate the present value of the removal costs of the thousands of units of property they typically make up these accounts.

E. The USOA Provides Contradictory Directions Regarding the Retirement Costs of Plant Being Replaced.

The one method that is not used for recognizing removal costs is that suggested in the definitions section of the USOA. Paragraph 31 of the Electric USOA (Subchapter C) and paragraph 32 of the gas USOA (Subchapter F) contain the following definition:

> *Replacing or replacement*, when not otherwise indicated in the context, means the construction or installation of electric (gas) plant in place of property retired, together with the removal of the property retired. [Emphasis supplied]

Paragraph 10 of both the electric and gas plant instructions covers additions and retirements of plant. It refers to "...additions to and retirements and replacements of electric (gas) plant..." It goes on to provide instructions for the recording of retirement unit additions and retirements. If the definition of replacements provided above applies, then the addition of a replacement unit should include the cost of removing the property retired. Yet, it does not. That is because subparagraph B(2) of the same paragraph 10 states that "(t)he cost of removal and the salvage shall be charged or credited, as appropriate, to such depreciation account."

The USOA as now written appears to have a contradiction as regards the removal costs of replacement plant. On one hand, the definitions section of the USOA incorporates removal costs of replaced plant into the capital cost of the replacement

plant. On the other hand, the removal costs of all plant are charged to depreciation reserve.

This is no small matter. As going concerns, electric and gas utilities have an obligation to maintain their transmission and distribution systems. As profit-making entities, the investor-owned utilities subject to the Commission's jurisdiction have every incentive to enhance and expand these systems. Transmission and distribution systems do not contract, they grow. Rarely, if ever do electric or gas utilities retire transmission and distribution facilities that are not replaced. Most of this replacement is *in situ,* such that the removal of the retiring plant is part of the same excavation and construction activity that installs the new plant. In this environment, the distinction between removal costs and construction costs is often artificial and arbitrary.

If, as the USOA instructs, the removal cost of replaced plant is capitalized with the replacement plant, the issue of removal cost accounting goes away for much of the plant of electric utilities and most of the plant of gas utilities. As discussed in more detail in these comments, NASUCA recommends that the contrary instruction to charge removal costs to depreciation should be eliminated from the USOA and that all removal costs associated with replacements be capitalized with the new plant.

F. The Current Choices Regarding Non-ARO Retirement Costs Invite "Gaming" of the Regulatory System by Utilities.

As noted, the distinction between a removal cost and a new construction cost is artificial and arbitrary when an old transmission or distribution facility is removed and a new one installed in the same construction activity. Paragraph 11 of both the electric and gas USOA's Plant Instructions requires that "all [cost] items relating to the retirements shall be kept separate from those relating to construction." That may be easier said than done. When a backhoe excavates a distribution gas main replacement, it opens both the old pipe and the location of the new pipe. How much

of that cost is associated with capping the old pipe, and how much is assignable to the new pipe?

Arguably, it should not matter if the effect on the utility is neutral. But it is not. It is very much to the utility's advantage to assign as much of the project to removal cost as can possibly be rationalized. That is because under the conventional procedure used to calculate negative salvage ratios, the higher the cost of removal, the higher the fraction of removal cost to original cost of plant removed, and the greater the inflator of the depreciation rate. To assign costs to the new plant means that those costs will be recovered over the life of that plant. To assign those same costs to the old plant means that future removal costs can be recovered from every unit of existing plant not yet removed.

Another area of subjectivity is the dismantlement studies. While these studies are often quite detailed, they have the consistent characteristic that they can never be verified. The utilities that sponsor them have every incentive to bias the results upward. Inflated costs translate into inflated depreciation rates. Under cost-based regulation, these higher depreciation rates translate into greater cash flow which, for utilities under FASB Statement No. 71, is tax-free. The effect on consumers, of course, is always higher utility rates.

The USOA should be designed to minimize the opportunity for utilities to exercise arbitrary and self-serving discretion in matters of cost accounting. It should ensure that no utility is able to "game" its reporting of costs so as to advance its cash realization at the expense of ratepayers. The remainder of these comments is devoted to recommendations that will minimize and hopefully eliminate that opportunity.

V. NASUCA's Recommended Modifications to the Proposed Rules.

A. Exclude Retirement Costs from Depreciation Expense.

The NOPR proposes to remove the retirement costs associated with AROs from depreciation accounting. It should do so for non-ARO retirement costs as well. The only adjustment to depreciation should be for anticipated salvage value, a forecast of which should be deducted from original cost for purposes of calculating depreciation rates. When salvage is realized, it should be debited to Plant in Service and credited to the Depreciation Reserve.

The specific changes to accomplish this modification are found in Paragraph 10.B (2) of both the Electric Plant Instructions and the Gas Plant Instructions. The final sentence of that sub-paragraph now reads: "The cost of removal and the salvage shall be charged or credited, as appropriate, to such depreciation account." The sentence should read simply: "Salvage shall be credited to such depreciation account."

B. Implement the Existing USOA Approach that Retirement Costs Related to Replacements Be Capitalized.

As noted earlier in these comments, the USOA already incorporates removal costs into the capital cost of replacement plant. When this practice is flowed through the depreciation process, then the removal cost of old plant will be recovered over the life of the new plant. This treatment avoids any need to estimate the future cost of removal. It also simplifies the recording of construction work orders by removing the requirement to identify separately removal and new construction costs. Finally, it matches cost recognition with benefit by charging to the users of replacement plant the cost of removing the old plant that made the replacement possible or, in cases of capacity exhaust, necessary.

The only change in the USOA is to remove the phrase in paragraph 11.A of the plant instructions for both electric and gas plant that reads, "...provided, however, that all items relating to the retirements shall be kept separate from those relating to construction and..."

C. Expense the Retirement Costs of Abandoned Mass Property Plant.

As noted earlier, most retirements of electric and gas plant are likely to be associated with replacement activity. Under the proposed rules, the removal costs for this plant would be capitalized and depreciated over the life of the new plant. For those instances where no replacement occurs, the removal costs should be expensed.

Like the NOPR, SFAS 143 is also relatively silent on the treatment for non-ARO retirement costs. However, other financial accounting pronouncements define depreciation as including salvage, but without any reference to retirement costs. Specifically, the American Institute of Certified Public Accountants has defined depreciation accounting as follows:

> Depreciation accounting is a system of accounting which aims to distribute cost or other basic value of tangible capital assets, less salvage (if any), over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner.[10]

Even the U.S. Supreme Court has defined depreciation as the recovery of original cost less salvage, but with no reference to retirement or removal costs:

> Broadly speaking, depreciation is the loss, not restored by current maintenance, which is due to all the factors causing the ultimate retirement of the property....According to the principle of this accounting practice, the loss is computed upon the actual cost of the property as entered upon the books, less the

[10]American Institute of Certified Public Accountants, Accounting Research and Terminology Bulletin #1, as quoted in the *Public Utility Depreciation Practices*, National Association of Regulatory Utility Commissioners, p.14, August 1996.

expected salvage, and the amount charged each year is one year's pro rata share of the total amount. [11]

D. Eliminate Net Salvage Value From the USOA's Definitions.

USOA Definition Nos.19 (electric) and 23 (gas) describe net salvage value as salvage value of the property retired less cost of removal. Once the concept of ARO's is established, there is no longer any need for these definitions of net salvage value.

E. Change The Definition of Service Value to Eliminate The Concept of Net Salvage

As described above, current definition Nos. 35 (electric) and 37 (gas) of service value include net salvage, which would allow non-ARO retirement costs to be recovered through depreciation charges. The word "net" should be eliminated from the service value definition.

F. Recognize as Liabilities the Removal Costs Already Recovered through Depreciation.

Many utilities have already recovered substantial reserves for removal costs. These reserves have been collected from ratepayers and therefore constitute a liability from the utilities to the ratepayers. They should be identified as such.

As indicated earlier, the NOPR requires the separate identification of past depreciation accruals for non-ARO retirement costs for gas and oil pipeline companies but not electric utilities. These accruals are no different from the prior excess recoveries of AROs which will be reclassified as regulatory liabilities to ratepayers. NASUCA has no objection to this separate identification in the accumulated depreciation reserves of electric, gas and oil pipeline entities as long as the USOA clearly identifies them as regulatory liabilities.

[11] *Lindheimer v. Illinois Bell Telephone Co.* 292 U.S. 151, 78 L.ed. 1182, 54 S. Ct. 658 (1934)

For this reason, the definitions of Account 108 - Accumulated depreciation should be expanded to include the following:

A. This account shall be credited with the following:

(8) All prior credits to Account 108 reflecting allowances for future cost of retirement, not classified as asset retirement obligations, shall be quantified and classified in a separate regulatory liability subaccount within Account 108.

VI. Conclusion

NASUCA has attempted to address all the required changes to implement fully the fundamental principles underlying the SFAS 143 and this NOPR. As discussed herein, even with the NOPR's proposed changes the USOA still contains several internal inconsistencies. The Commission should adopt NASUCA's proposed changes so as to "tighten" its accounting of all removal costs, not just those subject to the ARO provisions of SFAS 143. This tightening of the Commission's accounting rules should prevent utilities subject to the USOA from "gaming" the regulatory system insofar as removal costs are concern. NASUCA's recommendations would protect the Commission from the accusation that its rules are so loose as to be favorable to a particular constituency. The fundamental principles underlying the NOPR are sound. They should be maintained throughout the USOA.

Note: The foregoing comments were prepared at the request of NASUCA by the economic consulting firm of Snavely King Majoros O'Connor & Lee, Inc.

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Attachment A

to

COMMENTS OF THE

NATIONAL ASSOCIATION OF STATE UTILITY CONSUMER ADVOCATES

The National Association of State Utility Consumer Advocates ("NASUCA") filed its Comments in Docket No. RM02-07 on January 3, 2003. The Comments were filed electronically and the Accession Nos. were: 20030102-5014 and 20030102-5015. The Comments referred to an Attachment A which was inadvertently excluded from the file. Attachment A to NASUCA's January 3, 2003 Comments is included herewith.

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January 6, 2003

Attachment A
to NASUCA Comments
RM02-7

Snavely King Majoros O'Connor & Lee, Inc.

Summary of Status of Electric Generating Units (50MW or Greater)
Retired 1982 - 2001

Total Number of Steam Units		**143**

Status Code	Status	
S	Back in Service	8
R	Retired In Place	77
P	Partially Dismantled	8
D	Dismantled	33
G	Greenfield	6
N	No Information Available	11
	Total	143