Exhibit No. 140

Staff – Exhibit 140
Matthew Young
Surrebuttal Testimony
File No. GR-2021-0108

Exhibit No.:	
Issues:	*Capitalized Overheads, City Earnings Tax, Corporate Allocations, Excess ADIT, NOL Offset to ADIT*
Witness:	*Matthew R. Young*
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MISSOURI PUBLIC SERVICE COMMISSION

FINANCIAL AND BUSINESS ANALYSIS DIVISION

AUDITING DEPARTMENT

SURREBUTTAL TESTIMONY

OF

MATTHEW R. YOUNG

SPIRE MISSOURI INC., d/b/a SPIRE
SPIRE EAST and SPIRE WEST
GENERAL RATE CASE

CASE NO. GR-2021-0108

Jefferson City, Missouri
July 2021

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Q. Please state your name.

A. My name is Matthew R. Young.

Q. Are you the same Matthew R. Young that contributed to the Staff of the Missouri Public Service Commission's ("Staff") Costs of Service Report that was filed on May 12, 2021, and submitted prefiled rebuttal testimony on June 17, 2021?

A. Yes, I am.

EXECUTIVE SUMMARY

Q. What is the purpose of your testimony?

A. In this testimony, I will respond to several witnesses regarding Spire Missouri's ("Spire") corporate allocations, Excess Accumulated Deferred Income Tax ("Excess ADIT"), city earning tax expense, Spire's Net Operating Loss ("NOL") rate base adjustment, and capitalized overheads. I will also use this testimony as an opportunity to describe a correction to my calculation of base Accumulated Deferred Income Tax ("ADIT") in rate base.

On the issue of corporate allocations, Office of the Public Council ("OPC") witness Robert E. Schallenberg incorrectly characterizes my testimony as related to affiliate transactions rules. Staff witness Keith Majors will also submit surrebuttal testimony regarding Spire's affiliate transactions.

Next, I will explain why excluding from rates an amount for Kansas City's and St. Louis' corporate earnings tax is appropriate at this time. The earnings taxes are separate and distinct taxes from the taxes enforced by the Internal Revenue Service ("IRS") and the Missouri Department of Revenue and does not carry the same normalization requirements as federal income tax. Spire's position on this issue is to include a cost that is not known and not measurable without a good cause. If and when Spire does start incurring city tax on an ongoing basis, Staff will support including this tax expense in base rates.

I will rebut OPC witness John S. Riley regarding the NOL Asset included in Spire's and Staff's rate base. The Commission has already heard, and decided, this issue in prior rate cases and OPC continues to misunderstand what the ADIT component of rate base represents. Staff has offset Spire's ADIT liability with an NOL Asset to accurately reflect the amount of cost-free funds Spire has obtained from the federal government. Staff does not agree with OPC to reduce rate base by excluding the NOL Asset from rate base, because the NOL asset represents a tax timing difference that is protected by the IRS' normalization rules.

Spire submitted rebuttal testimony on the ratemaking treatment of two types of Excess ADIT; Missouri-related and Tax Cuts and Jobs Act ("TCJA") related. Regarding the Missouri-related Excess ADIT, I believe there is not a substantial difference between Staff and Spire. In this testimony, I will address differences in terminology and timing that should allow this to be a non-issue. On the TCJA-driven Excess ADIT, although the concerns I have with Spire's recommendation remain, I will accept Spire's methodology to address the over-refunded protected Excess ADIT situation.

Finally, I will demonstrate how Spire's methodology of capitalizing overheads is currently in non-compliance with the Uniform System of Accounts ("USOA").

The USOA's guidance was created to help ensure comparability between utilities and reporting periods and protect ratepayers from inappropriate accounting practices. I will demonstrate how Spire's capitalization practices lead to an inflated rate base and increased earnings when compared to the methodology required by the USOA. Increasing rates to cover the rate of return on an inflated rate base, in general rate cases as well as Infrastructure System Replacement Surcharge ("ISRS") cases, can be avoided by enforcing the Gas Plant Instructions provided by the USOA.

CORPORATE ALLOCATIONS

Q. What issue did Mr. Schallenberg take with your direct testimony on corporate allocations?

A. Mr. Schallenberg criticizes my testimony for describing the corporate structure of Spire Inc. without also discussing Spire Missouri's compliance with the Commission's affiliate transaction rules.

Q. Why did your testimony describe the structure of Spire Inc. and its subsidiaries?

A. My testimony briefly described the structure of Spire Inc. in order to explain the need for corporate allocators in the context of ratemaking.

Q. How are corporate allocators used in the ratemaking process?

A. There are a variety of cost of service items that apply to multiple business segments. I annualized and normalized various allocators so that Staff could assign costs to Spire East, Spire West, and other Spire Inc. subsidiaries during the ratemaking process. For example, Staff's annualized payroll costs include the cost of employees involved in projects that are applicable to multiple business units. The amount of expense for those employees

attributable to Spire Missouri was calculated using the corporate allocators I sponsored. There are many other corporate-level costs that Staff allocated to Spire Missouri in the same manner.

Q. Does your work on corporate allocators have anything to do with affiliate transactions?

A. Yes, but only to the extent that the various items being allocated are incidentally "affiliate transactions". Mr. Schallenberg's rebuttal testimony correctly articulates that corporate allocations are "…different from the concept of an "affiliate transaction" and therefore cannot be used to appropriately analyze Spire's compliance with the affiliate transaction rule requirements." The corporate allocations I sponsored were largely used for labor allocations.

Q. Does Staff have a witness further addressing testimony on affiliate transactions?

A. Yes. Staff witness Keith Majors is providing Staff's position on affiliate transactions.

CITY EARNINGS TAX

Q. Please summarize the issue.

A. In Staff's direct case, I removed corporate earnings tax charged to Spire Missouri by the Kansas City and St. Louis tax authorities. I did this by including city tax at zero cost in Staff's income tax schedules and also by removing the city tax rate from the effective tax rate ("EFT") calculation. The impact of city earnings tax to the EFT, and the subsequent effect on ADIT, should remain consistent throughout the cost of service modeling. Mr. Charles J. Kuper of Spire filed rebuttal testimony outlining Spire's position here he states, "The cost of service tax should be based on the statutory tax rates for federal**,** state, **and city**." [Emphasis added.][1]

[1] Kuper rebuttal, Page 2.

Q. What criticisms of Staff's position did Mr. Kuper offer?

A. In rebuttal testimony, Mr. Kuper stated that Staff's position is incongruous with its treatment of federal and state deferred taxes without drawing a distinction between the federal, state and city taxing authorities. Mr. Kuper's position is consistent with Spire's direct case; in which it included approximately $479,000 of revenue requirement for city earnings tax. Spire's position effectively would be to charge customers for a tax they have not incurred since *at least* 2013. Spire's tax position regarding city earnings taxes before 2013 is not readily available to Staff.

Q. Is there a distinction between city earnings tax and other types of taxes?

A. Absolutely. The major distinction between city tax and federal tax relates to the IRS's laws and regulations pertaining to how taxes are flowed to a utility's customers.

Q. Does Mr. Kuper's rebuttal testimony define a distinction between tax expenses caused by the various taxing authorities?

A. No. Mr. Kuper's argument does the opposite and uses the normalization treatment of federal income tax expense required by the IRS to justify inclusion in rates of a tax enforced at the city level. While the IRS effectively prohibits the Commission from immediately flowing federal income tax deductions to ratepayers, there is no such restriction on the treatment of other taxes for ratemaking purposes. City earnings tax is an expense that Staff has excluded from the Effective Tax Rate ("ETR") in Spire rate cases, as well as other utilities.

Q. Are there any other implications of including city earnings tax in the ETR?

A. Yes. The revenue requirement models used by Staff and Spire not only include income tax expense on the historical cost of service, they include a "factor-up" to provide for income tax expense that will theoretically be incurred by the Commission-approved increase in

base rates. By including the city tax rate in its calculation of the ETR, Spire is effectively recommending charging customers for a hypothetical earnings tax plus a mark-up for the earnings tax that would be incurred by a rate increase.

Q. Is there any evidence that rate increases create city earnings tax?

A. No. Spire East and Spire West have processed four rate cases and numerous ISRS cases since 2013, but the earnings tax payable to St. Louis and Kansas City has been $0 during the same time period.

Q. Is Mr. Kuper correct that Spire will need to pay city tax when it has taxable income in future periods?

A. Yes. If and when Spire has taxable income, it will incur an earnings tax from the cities of Kansas City and St. Louis. During the rate case where this situation arises, Staff will evaluate the tax expense to make the appropriate ratemaking recommendation.

Q. Is Staff aware of when Spire will incur city earnings tax?

A. No. Mr. Kuper correctly stated that any city earnings tax incurred will be in a future period. At this time, the cost is beyond the true-up date in this case so is not known or measurable.

NOL OFFSET TO ACCUMULATED DEFERRED INCOME TAX

Q. Please summarize Mr. Riley's rebuttal testimony on Staff's treatment of Spire's NOL Asset.

A. Mr. Riley states that, "Staff should make the change I recommend in this testimony and present it to the Commission instead of waiting for the Commission to give them direction." The recommendation Mr. Riley references is to exclude the impact of Spire's NOL Asset from the ADIT component of rate base.

Q. Is Staff waiting for the Commission to give Staff direction?

A. No. The Commission has already provided ratemaking guidance on this issue as Mr. Riley has already testified. The quote from the Report and Order in Case No. ER-2014-0258 that Mr. Riley cites is as follows:

> However, when bonus depreciation and other tax deductions grow so large as to push the company's taxable income into the negative, the available tax deduction cannot offset any liability and no "free" cash is generated. In that circumstance, the company must record an offsetting deferred tax asset for Net Operating Loss Carryforward (NOLC). The NOLC offsets the ADIT, which would decrease the company's rate base, and therefore, the NOLC has the effect of increasing the rate base.[2]

Q. Is the Commission's logic flawed as Mr. Riley argues?

A. No, the Commission described the deferred tax asset correctly. The rate base reduction for ADIT, including an offset for NOL, is a measurement of how much free cash a company has been able to generate from the government via tax deductions. To evaluate the logic in the Report and Order in Case No. ER-2014-0258 in light of with Mr. Riley's testimony, the following items must be held distinct from each other:

> -The cash generated from customers through normalization of income tax deductions, and
>
> -The cash collected from ratepayers for payment of current income taxes.

Q. Does Mr. Riley hold the two sources of cash separate from each other?

A. No. As a preliminary point, remember that utility income tax expense for ratemaking purposes is divided into two categories: (1) current income tax expense which is paid in cash by the utility to taxing authorities, and (2) deferred tax expense which represent amounts of "free" cash to the utility provided by customers related to normalization of certain income tax deductions. Mr. Riley appears to argue that that if the collection of current income

[2] ER-2014-0258, Report and Order, Page 18, lines 14-19.

tax expense in a utility's rates exceeds the amount of actual payments to taxing authorities by the utility, the excess collection somehow affects the treatment of deferred income taxes included in rates, and justifies omission of an NOL deferred tax asset from rate base. It is evident that a misunderstanding regarding these two categories of income tax expense exists when Mr. Riley states, "…there *is* free cash generated due to the inclusion of income taxes in the revenue requirements that are not being paid to the taxing authorities."[3] The cash obtained by the utility through tax strategy is entirely different from the income tax costs included in rates intended to cover current tax payments. Mr. Riley has confused these two sources of cash in his arguments although they are in fact separate. If rate base contained a component that represented the difference between cash collected from ratepayers for current income tax expense and actual tax payments paid by the utility, it would not be appropriate to label the balance as accumulated deferred taxes; it would instead represent an income tax expense tracker balance.

Q. So it is appropriate to include NOL tax assets in the ADIT component of rate base?

A. Yes. If the Commission's intention is to reduce a utility's rate base for cash retained by avoiding tax payments to the IRS, the balance of NOL Asset must be recognized as well to recognize the portion of a utility's tax deductions that cannot be currently reflected on its the tax return. Staff's position is that recognition of an NOL tax asset in rate base is, in some circumstances, mandated by the IRS's normalization requirements. The difference between current income tax expense collected from customers and cash paid to the IRS does not factor into the ADIT component of rate base.

[3] Riley rebuttal, Page 2.

Q. Are there any other ADIT related issues you would like to address?

A. Yes. Subsequent to Staff's direct filing, an error in my calculations was brought to my attention. My direct workpapers omitted the deferred taxes generated by Spire's Red Tag Program. While I consider this error immaterial, I will include the Red Tag-related ADIT in Staff's true-up revenue requirement.

MISSOURI EXCESS ADIT

Q. Please summarize Spire's rebuttal testimony on Missouri Excess ADIT.

A. In his rebuttal testimony, Mr. Kuper recommends measuring the Excess ADIT created by changes in Missouri's tax law at October 1, 2020, and labeling the Excess ADIT as unprotected as there is no federal requirements for state or local tax rate changes.

Q. Do you agree that the rate base value for Excess ADIT should reflect the tax change at October 1, 2020, instead of May 31, 2021?

A. Yes, that is reflected in Staff's case. Until an amortization can be reflected in Spire's rates, the balance of Excess ADIT created by the change in Missouri's corporate tax rate should remain the same. As such, there should have been no change to the amount of Missouri Excess ADIT between October 1, 2020, and May 31, 2021.

Q. Mr. Kuper asserts that Excess ADIT caused by a change in state taxes should be considered unprotected. Is that how you treated the Missouri Excess ADIT in your direct case?

A. No. In response to Staff Data Request No. 202, Spire provided, "…the requested deferred tax – rate base offset analysis as of 9/30/20 for Spire Missouri Inc., which reflects that amounts identified and quantified as protected and unprotected." In that context, Spire classified the state tax amount of EADIT as being protected. This was Staff's source for including a protected amount of Missouri Excess ADIT.

Q. Do you agree with Mr. Kuper that the Missouri Excess ADIT should be considered unprotected?

A. Yes. Staff Data Request No. 423 requests an explanation of the relationship between IRS regulations and state tax reform. Spire's response provided the new information; specifically that there was no relationship of the state tax reform to the IRS' rules and "unprotected" is the more appropriate label for this Excess ADIT. As such, Staff will recalculate the amortization of Missouri Excess ADIT in its true-up accounting schedules so that the amounts are 100% unprotected.

Q. Will there be any more changes to Staff's Missouri Excess ADIT calculations?

A. Yes. Staff's direct case contained a formula error that understated the total balance of Missouri Excess ADIT by approximately $747,000.

TCJA EXCESS ADIT

Q. What is the issue with Spire's Excess ADIT that was created by the 2017 TCJA?

A. When the TCJA changed the federal corporate tax rate from 35% to 21%, a portion of Spire's ADIT transitioned from a temporary timing difference to a permanent difference. In Spire's prior rate case, the Commission relied on the estimates and assumptions made by the parties to return the ADIT to ratepayers through an offset to income tax. However, the TCJA and the IRS effectively require regulators to return the "protected"[4] portion of Excess ADIT to customers no more quickly than what is referred to as the Average Rate Assumption Method ("ARAM"). The issue before the Commission in the current case is that since the Commission had to order a solution based on estimates, an excess amount of

[4] The Excess ADIT protected by federal regulations are book/tax timing differences driven by different method or life depreciation methodology.

Spire's protected Excess ADIT has been returned to customers, which if not corrected would violate the IRS' normalization rules.

Q. Has the federal government provided guidance on the appropriate action in this type of scenario?

A. Yes. The IRS issued Revenue Procedure 2020-39[5] to clarify the normalization requirements following the corporate tax rate reduction. Section 4.01(6) is as follows:

> Transition Rules. Many utilities have already been required to adjust rates due to the TCJA. Utilities may correct any method of reversing [Excess Tax Reserve] that is not in accord with this revenue procedure at the next available opportunity. The methods adopted prior to the publication of this revenue procedure that are not in accord with this revenue procedure are not considered to be a violation of the normalization rules if so corrected. This corrective action will require the utility to consult with its regulator and obtain its regulator's consent. Utilities are not in conflict with section 13001(d) of the TCJA if the utilities follow such a path to correct potential normalization violations prospectively.

Q. What is the Spire's solution to correct the over-refund?

A. Spire recommends amortizing the amount that was over-refunded over a three-year period by including the amortization as an offset to the ongoing refund of Excess ADIT. Additionally, Spire recommends an identical treatment of the balance of unprotected Excess ADIT, which was under-refunded.

Q. Please comment on Spire's recommendation for Excess ADIT.

A. While Staff doesn't agree with certain assertions made in Mr. Alan D. Felsenthal's rebuttal testimony, the solution presented by Spire is acceptable to Staff. Staff true-up run will reflect Spire's methodology.

[5] Schedule MRY-s1.

Q. In your rebuttal testimony, you indicated you were waiting on a data request response to respond to an NOL asset issue as it relates to the amortization of Excess ADIT. Have you received the response?

A. Yes. Spire's response to Staff Data Request No. 424 explained that the TCJA created a loss in value for Spire's NOL tax asset and the TCJA-driven loss will not be recovered by Spire through tax benefits. As such, inclusion of the NOL asset offset in the calculation of Excess ADIT amortizations is appropriate. This issue does not change Staff's revenue requirement as the NOL offset was included in Staff's direct case.

CAPITALIZED OVERHEADS

Q. Please summarize Staff's recommendation regarding capitalized overheads.

A. In Staff's Cost of Service Report, I described Spire's capitalization processes as opaque and not in compliance with the USOA. I recommended that the Commission order Spire to cease capitalizing non-operational overhead costs or, as an alternative, cease capitalizing costs Spire receives from Spire Services Inc., until such a time Spire can show the nature and relationship of its overhead costs to capital projects.

Q. How did Spire respond to your recommendation?

A. To summarize the rebuttal testimony of Mr. Timothy W. Krick, he states that while the process used to capitalize overheads has changed in recent years, the approach Spire uses is consistent with the approach the company has used for decades.

Q. Does remaining consistent for the sake of consistency create value for stakeholders?

A. While there is value in consistency, not reflecting changes to Spire's operations may create detrimental effects to ratepayers and shareholders that outweigh the value created

by Spire's consistency. According to Mr. Krick, the capitalization of overheads has remained constant while the rest of Spire's operations has changed dramatically. As Mr. Krick shows, Spire Missouri's capital expenditures have more than doubled between 2014 and 2020.[6] During the same time period, the Laclede Group Inc., that had recently acquired Missouri Gas Energy, further expanded its state and federal regulated operations, expanded its non-regulated operations, and literally became a new company we now know as Spire Inc.

Q. Does using a consistent approach prove compliance with the USOA?

A. No, maintaining an approach that has been used for decades has no relationship to the issue of compliance with the USOA. It appears Mr. Krick is implying that Spire's capitalization of overheads has been approved by the Commission in the past. However, I am unaware of capitalized overheads being raised as an issue in any Spire, or any of Spire's predecessors, proceeding until Spire's ISRS Case Nos. GO-2019-0115 and GO-2019-0116.

Q. How was the issue resolved in Case Nos. GO-2019-0115 and GO-2019-0116?

A. On April 5, 2019, the Commission approved the unanimous Stipulation and Agreement Regarding Overheads which effectively deferred the issue for further exploration in between cases.

Q. Was the issue brought forward after those ISRS cases?

A. Yes. In Spire's next round of ISRS cases, Case Nos. GO-2019-0356 and GO-2019-0357, the issue was raised again. During the second layer of Spire's 2019 ISRS cases, the Commission heard arguments on capitalized overheads and was able to form a decision.

[6] Krick rebuttal, Page 12.

Ultimately, the Commission concluded that a rate case was a more appropriate venue to decide the issue given the time constraints of an ISRS case.[7]

Q. Over the three years since the 2019 ISRS cases, has Spire increased its level of support for its overhead capitalization procedures in order to prepare for this rate case audit?

A. In the current rate case, Spire has offered more support for its processes than it provided in the 2019 ISRS cases, but the responses are still limited to high level explanations and generic policy statements. Unfortunately, Spire does not have documentation that is able to show the amount of overhead costs in its plant accounts or the bases for the processes used to account for them. Staff's position is that this information is necessary in order to determine whether the provisions of the USOA in this regard are being complied with.

Q. Does Spire have internal guidance or policies dictating or describing how it capitalizes overhead costs?

A. Staff Data Request No. 249 inquires about such documentation. In response, Spire provided a capitalization policy, dated January 9, 2017, (Schedule MRY-s2). On the first page, this policy dictates that all records shall be recorded in accordance with the FERC uniform system of accounts and regulatory procedures shall be followed.

Q. What guidance does the FERC USOA offer regarding the capitalization of overheads?

A. An excerpt of the USOA is attached to this testimony as Schedule MRY-s3. This excerpt shows FERC's Gas Plant Instructions 3 and 4. The USOA provides a list of costs that are eligible for capitalization in Instruction 3, and limits the indirect costs eligible for capitalization to an appropriate amount in Instruction 4.

[7] GO-2019-0356 and GO-2019-0357 Report and Order, Page 42.

Q. Do you agree with Mr. Krick that Spire is in compliance with Instruction 3?

A. No. As previously mentioned, Spire cannot show how the costs identified in Instruction 3 are accounted for in its capitalization process so Staff cannot agree that Spire is in compliance with the USOA. To the contrary, Staff is aware of two accounting procedures that are in contradiction with the USOA's guidance.

Q. What two procedures are you referring to?

A. The first procedure relates to Gas Plant Instruction 3(A)(8), which describes the injuries and damages transactions that are eligible for capitalization.[8] In summary, injuries to a person or damages to property that are in connection with construction work is includable in the gas plant accounts and insurance-related recoveries related to those incidents "shall be" credited to the accounts charged with the cost. Spire books the loss from the injury or damage to construction accounts but contrary to the USOA guidance, books insurance proceeds to the income statement accounts. When compared to the USOA's method, Spire's method inflates rate base and increases its earnings (through reduced expense).

The second procedure I'm aware of relates to Gas Plant Instruction 3(A)(19), which describes the training costs that are eligible for capitalization. This Instruction provides for capital eligibility of training costs related to construction with the provision that the related facilities must be unconventional in nature or new to the company's operations. However, Staff understands that Spire makes no such distinction in training activity and charges its construction projects for generic training activities. The effect of this accounting method produces the same inflated rate base and increased earnings when compared to the USOA's guidance.

[8] Note that this paragraph refers to the instances of injuries and damages, which is a separate cost from injuries and damages insurance coverage.

Q. Does Staff agree with Spire that the USOA guidance in Instruction 4 is being followed?

A. No. Instruction 4 has paragraphs A, B, and C, and Spire has not shown compliance with any of them.

Q. How has Spire failed to show compliance with Instruction 4, paragraph A?

A. Instruction 4, paragraph A, limits overhead construction costs to appropriate amounts by requiring the overheads, "…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…" Spire's responses to Staff's inquiries give general overviews of *how* overhead costs are capitalized but do not attempt to explain *why* any particular overhead is applicable to a construction job or unit or why the end result is an equitable allocation of overheads.

Instead, Spire comes to the conclusion that costs are not unique in nature and are equally eligible for capitalization. For example, Spire applies the same capital transfer rate to injuries and damages insurance, nearly the entire office supplies account, and directors and officers insurance despite the varying relationship of those costs to construction.

Q. What is the subject matter of Instruction 4, paragraph B?

A. Instruction 4, paragraph B, describes how the indirect payroll of supervisors should be capitalized, "… to the end that only such overhead costs as have a definite relation to construction shall be capitalized." The paragraph also prohibits the use of arbitrary percentages to cover assumed overhead payroll costs.

Q. Does this paragraph address labor that is direct charged?

A. No. Labor that is direct charged to a construction project is not considered an overhead. Spire's time reporting system allows each employee to code their time directly to a capital project, an income statement-related activity, or a clearing account. This paragraph of the USOA is applicable to payroll costs that flow through clearing accounts, which may not be limited to direct supervisors.

Q. Instruction 4, part B, requires the use of time card distributions as a basis of assigning overhead payroll to construction. Is this Spire's methodology?

A. No. Instead of conducting studies of the time charged to clearing accounts by its employees, Spire uses the direct labor charges as the basis of distributing overhead payroll costs. While direct labor charges are based on time card distributions, the USOA intended the time reporting of the supervisory labor to be the basis of distribution, not the time cards of their direct reports. To explain further, Spire has assumed there is a relationship between how construction employees use their time and how a supervisor's time is used. However, the USOA intended each supervisor's time reporting to be the basis of capitalizing overhead payroll, or when that is not practicable, supervisory time reports should be studied to make an appropriate allocation.

Q. How does Spire generally allocate overheads?

A. Mr. Krick admits that, "…one of the primary methods used to allocate overhead is the ratio of direct labor to total labor…"

Q. Has there been any authoritative interpretations of Spire's method of allocating supervisory time, as well as other overhead costs, using the ratio of direct-charged payroll?

A. Yes. In September 1988, the National Association of Regulatory Utility Commissioners ("NARUC") issued "Interpretation of Uniform System of Accounts for Electric

and Gas Utilities" (Schedule MRY-s4). Interpretation No. 59 answers questions regarding the methods used for the capitalization of administrative and general expenses, specifically the use of proportional direct charges. NARUC stated that only administrative and general expenses which have a "provable relationship to construction" are eligible for capitalization. NARUC also declared that an "incremental cost method" is the preferred method for evaluating the capital nature of overhead. The incremental cost method identifies a relationship of a capital cost to construction by proving the cost would not have been incurred if the construction was not undertaken. Furthermore, the only time general and administrative expenses can be capitalized when the incremental cost method is not used is if studies are made to determine a relationship to construction. Spire has provided no such studies.

Q. Why does Instruction 4, part B, prohibit the use of arbitrary percentages to cover assumed overhead?

A. Prior to the existence of the USOA, it was common practice to include an estimated allowance for overhead construction costs in rate base. Such an allowance typically included items such as costs of incorporation, legal, engineering and administrative services, interest, insurance, and taxes during construction. Fifteen percent of the total property value was the typical allowance for capital overhead costs.[9] As the accuracy of the accounting profession evolved, the use of an estimated markup became unnecessary, leading to the USOA's granular requirements for capital eligibility and the prohibition of arbitrary percentages.

Q. How does this prohibition affect Spire?

[9] The Regulation of Public Utilities, 3rd edition. Page 354.

A. In order to avoid using an arbitrary percentage to account for overhead payroll charges, Spire must examine the time reporting of each employee that does not directly charge their time to construction to find the appropriate amount of indirect construction-related payroll. Rather than examining the time of supervisors, Spire has relied exclusively on an arbitrary relationship between direct and indirect labor to account for overhead payroll costs, and the related payroll benefits that follow payroll.

Q. How has Spire failed to show compliance with Instruction 4, part C?

A. Paragraph C requires records of construction work orders and utility plant accounts to be maintained so that the total amount of each overhead, the nature and quantity of each overhead that is charged to each work order and each plant account, as well as the bases of distributing the overhead costs, can be shown. To track the amount and nature of overheads, Spire uses a concept called 'cost elements' to charge work orders.[10] Unfortunately, by the time construction work-in process is unitized to the FERC plant accounts, those cost elements are lost.[11] Accordingly, Spire does not keep records sufficient to show each overhead costs in its utility plant account and also has not provided support to show the bases used to distribute its overheads. As such, Staff concludes that Spire is unable to show how costs are recorded so that each job or unit is charged overheads that are reasonably applicable to the construction so that the job or unit will bear an equitable proportion.

Q. Is Spire's capitalized overheads a significant portion of rate base?

A. Certainly. It is Spire's own testimony that nearly a billion dollars of investment has been made since Spire's last rate case.[12] Although Spire is unable to show the nature of the

[10] Source: GR-2021-0108, Staff Data Request No. 0253.
[11] Source: GR-2021-0108, Staff Data Request No. 0253.1.
[12] GO-2021-0108, Weitzel direct, Page 4.

costs embedded in the $1 billion of plant in service, capitalized overheads can reasonably be assumed to account for hundreds of millions of dollars of rate base in the current cost of service. Given the magnitude of overhead costs, it is Spire's responsibility to produce a commensurate amount of documentation to support its own rate base that is driven by capitalized overheads.

Q. What was your recommendation in Staff's direct filing?

A. I recommended: 1) that the Commission either order Spire to cease capitalizing non-operational overhead costs or 2) order Spire to cease capitalizing costs received from Spire Services until Spire shows the nature and relationship of capital overhead costs. Lastly, 3) order accounting adjustments to reflect the Commission's decision on the appropriate capitalization.

Q. How does your recommendation relate to your finding regarding Spire's capitalization policy?

A. My recommendation is a compromise position. Given that Spire has not provided any support showing its compliance with the aforementioned Gas Plant Instructions, the most defensible recommendation I could make is to request a Commission Order to cease all capitalization of overhead costs. However, this type of recommendation would be a meat cleaver approach to a complex issue. Such an extreme recommendation would ignore the intuitive conclusion that even though Spire cannot show the relationship between its overhead costs and construction, some undefined relationship almost certainly exists. The recommendations I set forth in Staff's direct case asks the Commission to order Spire to cease capitalizing costs that at least likely to have a definitive relationship to construction and require Spire to justify the eligibility for capitalization going forward.

Q. What are the non-operational overhead costs that you identified in your direct recommendation?

A. The label "non-operational overhead costs" is one of three capital cost categories presented by Spire and represents costs that are not direct charges and not related to field operations.[13]

Q. Are you confirming that Spire has shown it is compliant with the USOA in its methodology for capitalizing the other two categories of costs; direct and operational overhead costs?

A. No. I make no finding regarding those types of costs as they were not part of my recommendations. Regardless if the Commission adopts Staff's recommendations, it would be in Spire's best interest to form documentation of USOA compliance for those cost categories as well.

Q. Does this conclude your surrebuttal testimony?

A. Yes.

[13] GO-2019-0356, Krick direct, Page 6.

26 CFR 601.105: Examination of returns and claims for refund, credit, or abatement; determination of correct tax liability.
(Also: § 1.168(i)-3)

Rev. Proc. 2020-39

SECTION 1. PURPOSE

This revenue procedure provides guidance under § 168 of the Internal Revenue Code (Code) to clarify the normalization requirements following the corporate tax rate reduction provided in section 13001 of Public Law No. 115-97, 131 Stat. 2054 (2017), commonly referred to as the Tax Cuts and Jobs Act (TCJA). On May 28, 2019, the Internal Revenue Service published Notice 2019-33, 2019-22 I.R.B. 1255, requesting comments on issues arising in this area. This revenue procedure provides guidance on these issues.

SECTION 2. BACKGROUND

.01 In general, normalization is a system of accounting used by regulated public utilities to reconcile the tax treatment of accelerated depreciation of public utility assets with their regulatory treatment. The use of normalization is required for a utility to take advantage of the accelerated cost recovery system under § 168 of the Code for public utility property. Under normalization, a utility receives the tax benefit of accelerated

depreciation in the early years of an asset's regulatory useful life and passes that benefit through to ratepayers ratably over the regulatory useful life of the asset in the form of reduced rates.

.02 In order to use a normalization method of accounting, § 168(i)(9)(A)(i) requires a taxpayer, in computing its tax expense for establishing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account (regulated tax expense), to use a method of depreciation for property that is the same as, and a depreciation period for such property that is no shorter than, the method and period used to compute its depreciation expense for establishing its cost of service for ratemaking purposes. If the amount allowable as a deduction under § 168 differs from the amount that would be allowable as a deduction under § 167 of the Code using the method, period, first and last year convention, and salvage value used to compute regulated tax expense under § 168(i)(9)(A)(i), then, under § 168(i)(9)(A)(ii), the taxpayer must make adjustments to a reserve to reflect the deferral of taxes resulting from such difference. This reserve is referred to as the Accumulated Deferred Income Taxes (ADIT) reserve.

.03 Taxpayers calculate the amount of the adjustments to the ADIT reserve by reference to the corporate tax rate applicable in each year that the depreciation deduction allowable as a deduction under § 168 exceeds the amount calculated under § 168(i)(9)(A)(i) for the taxpayer's regulated tax expense.

.04 Section 1.167(l)-1(h)(2)(i) of the Income Tax Regulations provides that the taxpayer must credit this amount of deferred taxes to a reserve for deferred taxes, a depreciation reserve, or other reserve account. This regulation further provides that,

with respect to any account, the aggregate amount allocable to deferred tax and included in such reserve under § 167(l) “shall not be reduced except to reflect the amount for any taxable year by which Federal income taxes are greater by reason of the prior use of different methods of depreciation” under § 1.167(l)-1(h)(1)(i). That section notes that, additionally, the aggregate amount allocable to deferred taxes may be properly adjusted to reflect asset retirements or the expiration of the period for depreciation used for determining the allowance for depreciation under § 167(a). Consequently, the ADIT increases in each year the accelerated depreciation under § 168 exceeds the tax depreciation amount used for calculating the taxpayer’s regulated tax expense and the ADIT decreases in each year the accelerated depreciation under § 168 is less than the tax depreciation amount used for calculating the taxpayer’s regulated tax expense. These increases and decreases are measured by the differences in the two depreciation methods multiplied by the tax rate in effect for the year of the adjustment to the ADIT.

.05 The TCJA, enacted on December 22, 2017, generally reduced the corporate tax rate under § 11 of the Code from 35 percent to 21 percent for taxable years beginning after December 31, 2017. Section 13001(a) of the TCJA. Because of the reduction in rates, for property subject to depreciation in a taxable year beginning on or before December 31, 2017, and not yet fully depreciated in the first taxable year beginning after December 31, 2017, a portion of the ADIT reserve will reflect this reduction. For purposes of this revenue procedure, the portion of the ADIT reserve that reflects the difference in tax rates due to accelerated depreciation is referred to as the Excess Tax Reserve (ETR). The ETR represents the amount by which the ADIT reserve exceeds

the amount it would have contained had the reduction in rates been in effect for every year the property was subject to depreciation. That is, the ETR is the amount of accelerated depreciation-related taxes that have been collected from ratepayers but have not yet been paid by the utility and become excess due to the reduction in rates.

.06 Section 13001(d) of the TCJA includes accompanying but uncodified normalization requirements related to the reduction of the corporate tax rate. Section 13001(d)(1) provides that "[a] normalization method of accounting shall not be treated as being used with respect to any public utility property for purposes of [§§ 167 or 168] if the taxpayer, in computing its cost of service for ratemaking purposes and reflecting operating results in its regulated books of account, reduces the excess tax reserve more rapidly or to a greater extent than such reserve would be reduced under the average rate assumption method" (ARAM).

.07 Section 13001(d)(2) of the TCJA provides an alternative method for certain taxpayers. If, as of the first day of the taxable year that includes the date of enactment of the TCJA, the taxpayer was required by a regulatory agency to compute depreciation for public utility property on the basis of an average life or composite rate method, and the taxpayer's books and underlying records did not contain the vintage account data necessary to apply ARAM, the taxpayer will be treated as using a normalization method of accounting if, with respect to such jurisdiction, the taxpayer uses the alternative method for public utility property that is subject to the regulatory authority of that jurisdiction.

.08 Section 13001(d)(3)(C) of the TCJA defines the "alternative method" (AM) as the method in which the taxpayer computes the ETR on all public utility property included in

the plant account on the basis of the weighted average life or composite rate used to compute depreciation for regulatory purposes, and reduces the ETR ratably over the remaining regulatory life of the property.

SECTION 3. SCOPE

.01 ~~In general.~~ This revenue procedure applies to public utilities subject to normalization that have ETR resulting from the corporate tax rate reduction provided in section 13001 of the TCJA.

.02 ~~Issues beyond the scope of this revenue procedure.~~ This revenue procedure addresses only the effects of tax rate changes on timing differences related to accelerated depreciation. Any issues unrelated to the effects of tax rate changes on accelerated depreciation are beyond the scope of this revenue procedure. For example, the effects of tax rate changes on timing differences associated with unprotected plant or non-plant related items, are not addressed in this revenue procedure. The appropriate amortization or other ratemaking treatment of timing differences unrelated to accelerated depreciation, such as unprotected plant or non-plant related items, are to be determined by the regulator in a rate proceeding, consistent with the regulatory authority over the ratemaking treatment of all other elements of jurisdictional cost of service.

SECTION 4. APPLICATION

.01 ~~Requirement to use ARAM or the AM~~.

(1) ~~In General~~. Generally, under section 13001(d)(1) of the TCJA, taxpayers must use ARAM to calculate the reversal of their ETR if the taxpayer's regulatory books (the financial and tax information used by their regulator in setting rates which may include

but is not limited to materials submitted to public service commissions as well as any supporting materials) are based upon the vintage account data necessary to use ARAM. However, if the taxpayer's regulatory books are not based upon the vintage account data that is necessary for the ARAM, use of the ARAM is not required.

(2) ~~Curing Vintage Account Data Deficiencies~~. A taxpayer whose regulatory books do not contain sufficient vintage account data to apply the ARAM is not required to use the ARAM. Determination of whether a taxpayer's regulatory books contain sufficient vintage account data necessary to use the ARAM is determined based on all the facts and circumstances. A taxpayer is not required to cure deficiencies in its regulatory books by the creation, re-creation, or restoration of books or records, including through the use of estimates, statistical sampling, or the accessing of data through the use of computer systems not currently in use for its financial processes. Deficiencies in data need not be cured, but taxpayers that have taken such actions to cure all deficiencies by the effective date of this revenue procedure are permitted to use ARAM. Lastly, a regulated utility that is currently using ARAM to reverse prior ETR is presumed to have sufficient vintage account data to use ARAM.

(3) ~~Taxpayers Use of AM for Prior Periods~~. Taxpayers that do not meet the requirements to use the AM provided in the TCJA and described in this revenue procedure may not continue to use the AM simply because they have done so in the past.

(4) ~~Composite Method~~. Under a composite method, the uniform system of accounts does not generally require a company to maintain vintage accounts for depreciation purposes; therefore, companies regulated by Federal Energy Regulatory

Commission (FERC) utilizing this method generally do not have the data necessary to utilize ARAM. Taxpayers may utilize AM whenever a composite method approved by FERC or another applicable regulatory agency is applied for depreciation purposes, and a taxpayer may rely on its cost of service rate filing to FERC as sufficient documentation that a composite method of depreciation has been used.

(5) ~~Jurisdiction of Multiple Regulatory Bodies~~. In the interest of economy and efficiency, taxpayers under the jurisdiction of multiple regulatory bodies may use a single method, ARAM or the AM, provided that the regulatory bodies agree. For example, a utility that is under the regulatory jurisdiction of FERC, which uses a composite method of calculating depreciation, and a state regulatory body that does not use a composite method (and therefore would generally use the AM for FERC purposes but has the data necessary to use ARAM for state purposes) may, if approved by the state regulator, use the AM for state purposes as well.

(6) ~~Transition Rules~~. Many utilities have already been required to adjust rates due to the TCJA. Utilities may correct any method of reversing ETR that is not in accord with this revenue procedure at the next available opportunity. The methods adopted prior to the publication of this revenue procedure that are not in accord with this revenue procedure are not considered to be a violation of the normalization rules if so corrected. This corrective action will require the utility to consult with its regulator and obtain its regulator's consent. Utilities are not in conflict with section 13001(d) of the TCJA if the utilities follow such a path to correct potential normalization violations prospectively. These rules extend to companies that may not have started the amortization of ETRs or may be re-deferring the amortization as they evaluate their records.

.02 ~~Net operating loss carryforward (NOLC)~~. Compliance with normalization requires a determination of the source of an NOLC so that rate base is not overstated in jurisdictions in which net deferred tax liabilities reduce rate base. While § 1.167(l)-1(h)(1)(iii) is the relevant general authority, there is not one single methodology provided for determination of the portion of an NOLC that is attributable to depreciation. Section 1.167(l)-1(h)(1)(iii) instead informs taxpayers that the amount and time of the deferral of tax attributable to depreciation when there is an NOLC should be taken into account in such "appropriate time and manner as is satisfactory to the district director." Regulating commissions have expertise in this area, and any reasonable method for determining the portion of the NOLC attributable to depreciation should generally be respected provided such method does not clearly violate normalization requirements.

.03 ~~Application of 2008 regulations (§ 1.168(i)-3)~~. The rules in § 1.168(i)-3 of the Income Tax Regulations, adopted by T.D. 9387 (73 F.R. 14934, 14937) on March 20, 2008, apply only to section 203(e) of the Tax Reform Act of 1986. Generally, the IRS will apply § 1.168(i)-3 of the regulations as if that limitation date language is not present. Thus, the sharing of ETRs with customers continues to be permitted in most circumstances after a retirement or disposition and upon the sale of public utility property to another regulated utility as set forth in § 1.168(i)-3.

SECTION 5. EFFECT OF THIS REVENUE PROCEDURE ON EXISTING NORMALIZATION RULES

The TCJA ETR normalization requirements are part of the overall pre-existing deferred tax normalization rules, and this reveune procedure is intended to be consistent with those rules. This revenue procedure does not create an exception to

how the overall pre-existing deferred tax normalization rules would apply, except as noted.

SECTION 6. EFFECTIVE DATE

This revenue procedure is effective August 14, 2020.

SECTION 7. DRAFTING INFORMATION

The principal author of this revenue procedure is Martha M. Garcia of the Office of Associate Chief Counsel (Passthroughs and Special Industries). For further information regarding this revenue procedure contact Martha M. Garcia on 202-317-6853 (not a toll free call).

Capitalization Policy

Document number	
Policy applicability	Spire Inc. and its subsidiaries
Document owner	Director Accounting and Special Projects
Issue date	01/09/2017

1. Policy statement

1.1. It is imperative that the Company accurately reflect the investment in plant and property that is used and useful in providing natural gas service to our customers. The Company's activities must conform to applicable regulations issued by our regulatory agencies; the State Commissions (Missouri Public Service Corporation, Alabama Public Service Commission and Mississippi Public Service Commission) and the Federal Energy Regulatory Commission (FERC). These regulations impact all phases of our accounting systems. It is required by these agencies that all plant investment be recorded at original installed cost and that a work order system be used to record the cost of constructing and/or replacing the units of property of our natural gas system.

1.2. The investment in property, plant and equipment that is necessary to provide service to our customers is one element our regulatory agencies consider in determining the amount we may charge our customers. The regulatory term for this element is called "Rate Base," and some of our utilities are allowed to charge our customers an amount equal to "Rate Base" and/or "Property Investment" at a regulatorily determined rate of return.

1.3. All records shall be recorded in accordance with the FERC uniform system of accounts and regulatory procedures shall be followed. Any deviation from FERC guidelines due to State Requlatory Commission stipulations and agreements shall be specifically documented. These stipulations and agreements are filed in the Rates & Regulatory Affairs department.

2. Key accountabilities

2.1. **Operational Accounting Group:** The Operational Accounting group, primarily the asset management specialists are responsible for the overall administration of this policy and the resolution of any questions that may arise.

2.2. **Department Managers and Supervisors:** All department managers and supervisors are responsible for the application of this policy and for maintaining a record of calculators and other non-standard office issues that are assigned to employees and are expensed in accordance with this policy.

2.3. **Operating Departments:** The operating departments in each field location are responsible for maintaining a record of the issuance to employees of tools and equipment that are expensed in accordance with this policy.

3. Guidelines and Rules

3.1. The FERC guidelines for the capitalization of assets are very lengthy. This policy will incorporate certain components of construction cost, but shall not be limited to them. In order to obtain clarification of rules and guidelines, reference *Code of Federal Regulations, Title 18, Part 201, Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act*.

3.2. When deciding what should be capitalized, all assets owned and used by the utility in its gas operations should have an expectation of life in service of more than one year from the date of installation or purchase.

3.3. Type of constructed or purchased items that should be capitalized include:

3.3.1. Components of Construction Cost

Contract Work

Company Labor

Material and supplies – Along with stock and non-stock items, this will include individual items of equipment of small value or short life, small protable tools and implements that are consumed directly in construction work, the cost shall be included as part of the cost of construction. (Reference Gas Plant Instructions, Part 3, number 3)

Loadings and Construction Overheads

Allowance for Funds Used During Construction (AFUDC) – Reference Interest Capitalization Policy (AFUDC), for guidelines and limitations.

3.3.2. Purchase Tools and Other Equipment

The purchase of tools, shop, garage, stores, kitchen, office equipment etc. should be expensed having a unit cost less than $500.

It is the policy of the Company to expense or charge to the small tools clearing account of a capital nature items having a unit cost less than $500. However, in situations involving the bulk purchase of near-identifical items, all costs will be capitalized when purchase is a minimum of $10,000 and the service life expectancy greater than one year.

The capital purchase of a unit item greater than $500 with accessories less than $500 a unit, the cost of the accessories can be capitalized as long as they are being purchased solely for that item at the initial purchase of the capital item. Future accessory purchases with a useful life greater than one year will be coded to the small tools clearing account and cleared appropriately since the accessory cannont act as a stand alone asset.

In addition, tool like items and other equipment being determined to have long life or a warranty can be capitalized with management approval.

For polices relating to capitalization of computer hardware and software, reference Software Capitalziation Policy.

Purchase of distribution equipment such as meters, electronic transmitting equipment (ERTS), regulators etc. are excluded this policy. Reference FERC guidelines for detailed explanation.

Exceptions to this policy are permitted if required by applicable regulatory requirements that are not compatible with the above requirements.

3.3.3. Mandates and Orders

Missori Public Service Commission approved the capitalization of encapsulation of cast iron joints in accordance with the "Accounting Authority Order", Case No. GO-94-234, is relating to certain accounting procedures for the treatment of costs and expenditures for gas safety projects undertaken pursuant to the Commission's pipeline repairt and replacement rules. Refernce Case No. GO-2002-50.

4. Reference documents

4.1. Interest Capitalization Policy (AFUDC)

4.2. Software Capitalization Policy

5. Attachments

5.1. **N/A**

Document Review and Approval

Document review list

Name	Position title	Date reviewed	Major revisions
Tim W. Krick	Managing Director, Accounting	11/28/2016	New Policy – implementation of formalized policy
John D. Lassman *	Director Accounting and Special Projects	12/01/2016	Publication of first formal policy
Sondra S. Brown	Vice President, Controller	12/05/2016	Organization review and approval of formalized policy

**Indicates Document Owner*

Approve as to form

Name	Position title	Date approved	Initials
Ellen Theroff	Vice President, Governance and Standards	12/05/2016	ELT

Leadership Council approval

Date	Comments
01/09/2017	

Document history

Former document number
Comments

Uniform System of Accounts

For

Gas Utilities

As of April 1, 2004

From FERC Website 4/17/06

other expenditures occasioned solely by such form of payment.

D. The gas plant accounts shall not include the cost or other value of gas plant contributed to the company. Contributions in the form of money or its equivalent toward the construction of gas plant shall be credited to the 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 ledger 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 being recorded as a credit.

3. *Components of construction cost.* A. The cost of construction properly includable in the gas plant accounts shall include, where applicable, the direct and overhead costs 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 the 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, injury to or death of persons other than employees, damages to property of others, defalcation of employees and agents, and the nonperformance 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" 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) below, except when such other funds are used for exploration and development or leases acquired after October 7, 1969, no allowance on such other funds shall be included in these accounts. 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:

$$A_i = s\left(\frac{S}{W}\right) + d\left(\frac{D}{D+P+C}\right)\left(1-\frac{S}{W}\right)$$

$$A_e = \left[1-\frac{S}{W}\right]\left[p\left(\frac{P}{D+P+C}\right) + c\left(\frac{C}{D+P+C}\right)\right]$$

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

A_e=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 less asset retirement costs (See General Instruction 24) related to plant under construction.

(b) The rates shall be determined annually. The balances for long-term debt, preferred stock and common equity shall be the actual book balances 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 subpart D of part 154 of the Commission's Regulations Under the Natural Gas 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 jurisdiction. 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 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 "Gas Utility Plant" 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" includes (a) all revenues derived during the construction period from property which is included in the cost of a project under construction and (b) all expenses which are attributable to the revenues received.

(19) "Training costs". 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) "Line pack gas." Line pack includes the first cost of that quantity of gas introduced into the utility's system necessary to bring the system up to its designed operating capacity or increases therein and which must be maintained in the system in order to sustain such design operating capacity.

(21) LNG "heel" is the first cost of that minimum quantity of liquefied natural gas necessary to be retained in holding tanks and other facilities for purposes of temperature and/or pressure maintenance.

(22) "Studies" includes the costs of studies such as operational, safety or environmental studies relative to plant under construction. Studies mandated by regulatory bodies relative to facilities in service, shall be charged to Account 183.2, Other Preliminary Survey and Investigation Charges.

(23) "Asset retirement costs." The costs recognized as a result of asset retirement obligations incurred during the construction and testing of utility plant shall constitute a component of construction costs.

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. The record 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 utility plant account, and the bases of distribution of such costs.

5. *Gas plant purchased or sold.* A. When gas plant constituting an operating unit or system is acquired by purchase, merger, consolidation, liquidation, or otherwise, after the effective date of this system of accounts, the costs of acquisition, including expenses incidental thereto properly includible in gas plant, shall be charged to account 102, Gas 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, Gas Plant Purchased or Sold, and concurrently charged to the appropriate gas plant in service accounts and to account 104, Gas Plant Leased to Others, account 105, Gas Plant Held for Future Use, 105.1, Production Properties Held for Future Use, and account 107, Construction Work in Progress—Gas, as appropriate.

(2) The depreciation, depletion, and amortization applicable to the original cost of the properties purchased, shall be charged to account 102, Gas Plant Purchased or Sold, and concurrently credited to the appropriate account for accumulated provision for depreciation, depletion 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, Gas Plant Purchased or Sold, shall then be closed to account 114, Gas 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 gas 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 gas 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, Gas Plant Acquisition Adjustments. The amounts (estimated if not known) carried with respect thereto in the accounts for accumulated provision for depreciation, depletion, and amortization and in account 252, Customer Advances for Construction, shall be charged to such accounts and the contra entries made to account 102, Gas Plant Purchased or Sold. Unless otherwise ordered by the Commission, the difference, if any, between (a) the net amount of debits and credits and (b) 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

INTERPRETATIONS OF UNIFORM SYSTEM OF ACCOUNTS FOR ELECTRIC AND GAS UTILITIES

September 1988

National Association of
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THE STAFF SUBCOMMITTEE ON ACCOUNTS OF THE

COMMITTEE ON ACCOUNTS OF THE

NATIONAL ASSOCIATION OF

REGULATORY UTILITY COMMISSIONERS

FOREWORD

This summary of interpretations of the uniform system of accounts for electric and gas utilities comprises a revised listing of interpretations issued by the Committee on Accounts of the National Association of Regulatory Utility Commissioners. It contains many interpretations previously issued with respect to the prior systems of accounts.

The interpretations are numbered consecutively and followed by one or more of the letters, E or G, denoting that the interpretation is applicable to electric and gas utilities respectively.

Additional interpretations will be made from time to time as inquiries from commissions or utilities indicate the need for clarification in applying the provisions of the systems of accounts.

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INTERPRETATIONS
UNIFORM SYSTEM OF ACCOUNTS

No. 1 - EG

Question:

Is it permissible to charge the cost of maintenance of structures and improvements used exclusively for transportation, stores, shops, and laboratory to clearing accounts or is it mandatory that such maintenance costs be charged to Account 935 - Maintenance of General Plant?

Answer:

It is permissible to charge the cost of maintenance of structures and improvements used exclusively in connection with transportation, stores, shops, and laboratory to clearing accounts.

No. 2 - EG

Question:

Is it permissible to charge to the various operating accounts that portion of social security and unemployment benefit taxes which relates to the labor charged to various operating accounts?

Answer:

Social security, unemployment benefit and other forms of payroll taxes, to the extent applicable to operating payrolls, should be included in Account 408 - Taxes Other Than Income Taxes, and not distributed over the various expense accounts to which the payroll was charged. Such portions of these classes of taxes as are applicable to construction work should be distributed directly or through clearing accounts to the appropriate utility plant accounts. Likewise, any such taxes applicable to nonutility operations should be charged to the appropriate nonutility expense account.

No. 3 - EG

Question:

A. Is it permissible to clear overheads to construction once a year instead of each month?

> Note: Clearance of overheads to construction each month is to be distinguished from charging to construction work during month all of the overheads incurred during the month. The question here presented is whether charges to construction work orders should be made each month.

B. Is it permissible to charge certain overheads direct to primary accounts instead of work orders, if, at the end of the year, each work order is marked to indicate the percentages of such overheads applicable thereto?

Answer:

Neither of the proposals under A and B is permissible under the Uniform System of Accounts.

No. 4 - EG

Question:

To what account shall be charged "remainder assessments" made on behalf of state regulatory bodies for general purposes of public utility regulation which are not identified with specific services performed in special or formal cases?

Answer:

"Remainder assessments" should be charged to Account 408 - Taxes Other Than Income Taxes.

No. 5 - EG

Question:

What account should be charged for fees of paying agents of bond interest and fees of trustees under a mortgage? If fees for paying bond interest are paid to a holding company, or to an associated service company, which actually serves as a paying agent, would the charge be to the same account as it would be if paid to a nonassociated paying agent?

Answer:

These fees should be charged to Account 930.2 - Miscellaneous General Expenses, in accordance with the text of the account. There is no difference in treatment if the payment is made for service rendered through a holding company, or associated service company.

No. 6 - EG

Question:

Company "A" owns 100% of the stock of Company "B". Company "B" usually suffers losses which "A" desires to record in its income account. To what accounts should the losses be charged and credited?

Answer:

If the losses incurred are resulting in a permanent impairment in the value of the securities owned, Company "A" should charge the loss to Account 426.5 - Other Deductions, and credit an account for accumulated loss in value carried as a separate subaccount of Account 123 - Investment in Associated Companies, as provided in note D thereof.

No. 7 - EG

Question:

Company "A" contemplated building an addition to its present plant. The desired space for the proposed plant extension is now occupied by a commercial concern "B". In order to secure the site, Company "A" enters into the following agreement: "In consideration of Company 'B' terminating the present lease on the desired site and allowing Company 'A' to negotiate for it, Company 'A' agrees to find another suitable site for 'B' Company and erect thereon a building similar to the one now existing on the site desired by Company 'A'. The entire cost of securing another site for Company 'B' and erecting a suitable building is estimated to be $100,000." What would be the proper disposition of this item under the Uniform System of Accounts?

Answer:

The costs incurred in securing another site for Company "B" and erecting a suitable building thereon are properly includible in the cost of the land on which the addition to the plant is to be constructed.

No. 8 - EG

Question:

This utility has a number of electric signs on general office buildings, generating plants, service buildings, etc., some of which show the name of the plant to which they are attached. To what plant account should the cost of these signs be charged and to what operating expense account should the cost of operating these signs be charged?

Answer:

The cost of the electric signs should be included in Account 398 - Miscellaneous Equipment. The signs, regardless of location, apparently serve only the general purpose of acquainting the public with the facilities and service of the utility.

In accordance with the general purpose of such signs, the costs

of operation should be charged to Account 930.1 - General Advertising Expenses. The cost of operating signs devoted to the advertising of merchandise appliances should, however, be charged to Account 416.

No. 9 - EG

Question:

Three short-wave radio stations are maintained by a utility, the cost of which has been distributed to plant Account 397 - Communication Equipment. This equipment is used to receive weather reports and is utilized considerably for load dispatching, transmission and other general purposes when telephone facilities are out of order. To what operating expense account should the utility charge the cost of labor for operating this equipment, together with the cost of replacing batteries, tubes and similar items?

Answer:

If the expense of operating this equipment justifies, a clearing account should be maintained and the costs distributed to the appropriate functional operation and maintenance accounts strictly on the basis of use of the equipment.

If the use of a clearing account is not deemed necessary, the costs of operation should be distributed on a reasonable basis among the proper accounts for load dispatching, transmission and general use. The costs of maintaining the equipment are properly chargeable to Account 935 - Maintenance of General Plant.

No. 10 - EG

Question:

To what expense account should the cost of patrolling and operating private telephone lines be charged? These lines are used at certain periods of the day for load dispatching purposes, but they are also available to all departments of the utility for whatever business they wish to transact.

Answer:

The most satisfactory method of accounting by a utility for costs of operating a privately owned telephone system is the use of a clearing account whereby the proportionate costs are distributed to the functional operation and maintenance accounts on the basis of use.

If the use of a clearing account is not deemed necessary, the costs of operation should be distributed on a reasonable basis among

the proper accounts for load dispatching and general use. The costs of maintaining the equipment are properly chargeable to Account 935 - Maintenance of General Plant.

No. 11 - EG

Question:

To what accounts should the cost of installing a system of continuing property records be charged? The principal items under this question are:

A. Cost of making maps to be used in connection with plant records.
B. Cost of labor involved in spotting property on maps as well as other pertinent information.
C. Cost of cards and first cost of labor involved in recording information on such cards.
D. Cost of labor and expense in making inventory of property.
E. Cost of ledgers and ledger sheets (first cost) used in connection with the installation of the record system, also labor involved (first cost).

Answer:

The cost of installing continuing property records should be charged to Account 930.2 - Miscellaneous General Expenses, except that the compensation and expenses of regular officers and employees who incidentally work on continuing property records should be charged to the accounts appropriate for the normal functions of such individuals.

No. 12 - EG

Question:

An affiliated company performs construction work under contract for a utility. Under the circumstances outlined below, what is the proper accounting?

A. Where an affiliated construction company handled a construction job for a utility under a contract so that the utility merely paid progress payments on the contract, should the utility be required to furnish costs in the same detail as if the construction work had been done by the utility itself?

B. Must a showing be made of the reasonableness of the above payment, pursuant to General Instruction 2 E?

C. If any part of such payment is determined to be an unreasonable charge, should that item now be written off to Account 426.5 - Other Deductions - pursuant to General Instruction 2 E, or

is it permissible to charge such excess cost to Account 114 or Account 116?

D. Do any of the following facts alter the answers to the above inquiries?

(1) The holding company has been reorganized since the date of the construction work.
(2) The holding company no longer owns the operating company.
(3) The affiliated service company has been dissolved.
(4) The affiliated service company has been mutualized.

Answer:

A. Yes. Where an affiliated construction company does work on contract, the affiliated company should supply the same detail of costs as if the construction work were done by the utility itself.

B. Yes.

C. Charge such excess cost to Account 426.5 or as the Commission may approve or direct.

D. (1) No.
(2) No.
(3) No.
(4) No.

No. 13 - EG

Question:

A utility, some two years prior to the redemption of its preferred stock at a premium, reduced its common stock and thereby created capital surplus. At the same time it wrote down certain investments against earned surplus, which was insufficient to cover the amount of writedown. The resulting deficit was transferred to capital surplus. After absorbing such deficit, a substantial balance of capital surplus remained. Between the date of the foregoing reduction of capital and the date of redemption of preferred stock, the company had accumulated an earned surplus in excess of the redemption premium on the stock retired. The company charged the redemption premium to capital surplus, leaving earned surplus since date of recapitalization undisturbed. The utility is a subsidiary of another corporation.

Was this accounting treatment for the redemption premium proper?

Answer:

In accordance with the provisions of Account 217 - Reacquired Capital Stock, the utility in the case submitted should apply the

redemption premium, first to any premium recorded in the accounts applicable to the original issuance of the preferred stock issue being redeemed, second, to any accumulated credits in Account 210 - Gain on Resale or Cancellation of Reacquired Capital Stock, which arose from prior reacquirement or retirement of stock, and third, to earned surplus.

No. 14 - EG

Question:

A utility redeemed at a premium its outstanding preferred stock with funds obtained from the issuance and sale of a new issue of preferred stock having a lower dividend rate than the stock retired. The capital represented by the new issue was allocated partly to stated capital and partly to paid-in surplus, created by reducing par value of common stock. At the time the stock was retired the utility had an earned surplus in excess of the redemption premium. The utility is a subsidiary of another corporation.

Was the accounting treatment for the redemption premiums proper?

Answer:

It is assumed that the new issue of preferred stock is no-par stock. If the amount allocated to paid-in surplus represented the excess of the consideration received over the stated value of the stock issued, such excess should have been credited to Account 207 - Premium on Capital Stock, this account representing a classification of that portion of the utility's capital.

The redemption of the old issue at a premium and the issuance of the new stock were independent transactions; therefore, the accounting should follow the same principles as in interpretation No. 13.

No. 15 - EG

Question:

A utility owns a large office building, 20% of the space of which is occupied by the utility (15% electric, 3% gas, 1% water, 1% ice). The remaining 80% (less vacancies) is occupied by tenants, whose rent does not yield a fair return on the cost of the part of the building not occupied by the utility. Should the building be classed as common plant and the cost thereof as well as its operating expenses be prorated to departments and nonutility functions; or should the entire cost of the building be included in electric plant Account 390 - Structures and Improvements, and operating revenues credited with the rent received from tenants and charges to other departments; or should the cost of the building be included in Account 121 - Nonutility Property, and proper rent

charges made to the respective departments?

Answer:

Cost of the building should be included in Account 121 - Nonutility Property, and the various utility departments charged with rent for the space occupied.

No. 16 - EG

Question:

A. When a unit of property, including associated minor items constituting a part thereof is replaced by a wholly new unit including associated minor items (to illustrate, the replacement of a pole and a cross-arm with a new pole and a new cross-arm of the same class and dimension), what is the proper accounting?

B. When a unit of property, including associated minor items, is removed and a new bare unit and old associated minor items installed (to illustrate, the replacement of a pole and a cross-arm with a new pole and re-use of old cross-arm), what is the proper accounting?

C. When a unit of property is replaced, including associated minor items and also nonassociated minor items (such as the replacement of a pole and associated cross-arm with a new pole and a new cross-arm and also the replacement of insulators with new insulators), what is the proper accounting for the nonassociated minor items?

Answer:

A. The cost of the replaced unit including associated minor items constituting a part thereof should be charged to the accumulated provision for depreciation with the cost of the new unit and associated minor parts should be capitalized.

B. If minor items of the replaced unit are re-used as a part of the new unit, the accounting should be as follows: charge accumulated provision for depreciation with the cost of the old unit and associated minor items; credit accumulated provision for depreciation with the salvage value of reusable parts; charge plant with cost of new unit including reused minor items salvaged from old unit.

C. If nonassociated minor items are replaced at the time a unit and its associated minor items are replaced, the cost of replacing such nonassociated minor items should be charged to maintenance. However, if the replacement of nonassociated minor items effects a substantial betterment, the excess of cost of replacement over the estimated cost at current prices of replacing without betterment should be charged to the appropriate plant account.

No. 17 - E

Question:

Is it permissible to charge Account 369 - Services, rather than Account 370 - Meters, with the cost of meter sockets or bases when installation of sockets or bases is done by the same men who install the services? Likewise, is it permissible to charge Account 369 - Services, with the cost of meter boxes when installation is done by the same men who install the services?

Answer:

Account 370 - Meters, should be charged with the cost of meter sockets or bases and meter boxes even though installation of the items is done by men who install the services.

No. 18 - E

Question:

Is it permissible to include in the poles and fixtures accounts instead of station equipment accounts, the cost of poles used for substations under the following conditions:

A. where such poles are an integral part of the line but spaced closer together.

B. where the substation is to one side of the line and supported by several poles.

C. where the substation is supported by a steel structure but where the last pole on the line entering or leaving the substation is within the substation enclosure?

Answer:

Yes.

No. 19 - E

Question:

What is the proper accounting for replacement of the core of a power transformer?

Answer:

When the core of a power transformer is replaced, the appropriate plant account should be credited and accumulated provisions for depreciation charged with the cost of the complete

transformer. Concurrently the accumulated provision for depreciation reserve should be credited as salvage with the cost of casing and other reusable parts. The appropriate plant account should then be charged with the cost of the rebuilt transformer, such cost consisting of cost of new core plus cost of casing and other reused parts salvaged from the old transformer.

No. 20 - E

Question:

An inquiring utility which is not engaged in appliance merchandising states that it has absorbed costs of enlarging wiring facilities for installations of ranges sold by dealers in its territory. The utility desires to know the account or accounts to be charged for the costs it has absorbed.

Answer:

The wiring required for electric range installations up to the meter or house attachment, to the extent representing a property addition, shall be recorded in Account 369 - Services.

Any installation on the load side of the customer's meter shall be charged to Account 916 - Miscellaneous Sales Expenses, if available to all customers irrespective from whom the appliance is purchased. If the expenditure is incurred in connection with the merchandising activities of the utility or an associated company, it shall be charged to Merchandising, Jobbing and Contract Work.

No. 21 - E

Question:

The City of "G" has an overhead distribution line entirely within the City. The line is constructed on forty-foot poles. For the purpose of building a transmission line, the forty-foot poles were removed and replaced by sixty-foot poles. The distribution system was transferred to the new sixty-foot poles which carried the new transmission line. Is the City of "G" required to capitalize as part of the cost of the transmission line the expenditure in transferring its old distribution system to the new transmission line poles; or is it required that the expenditures be charged to maintenance?

Answer:

The cost of transferring the old distribution system to the new transmission line poles should be charged to the appropriate distribution system maintenance accounts.

No. 22 - E

Question:

The City of "G" wishes to build a transmission line through the City of "H" to connect with its new source of electricity. The City of "H" grants the City of "G" permission to construct a transmission line over a route where the City of "H" has an existing distribution line. As a condition, the City of "G" is required to install sixty-foot poles (in place of the City of "H's" forty-foot poles) and to transfer all overhead equipment to the City of "H" without cost to that city.

Is the City of "G" required to capitalize as part of the cost of the transmission line the expenditures in transferring the distribution system of city "H" to the new transmission line poles; or is it required that the expenditures be charged to maintenance?

Answer:

The costs incurred by the City of "G" in transferring the distribution system of the City of "H" to the new transmission line poles should be charged to its electric plant accounts, classified as a cost of right-of-way.

No. 23 - EG

Question:

A utility purchased a substation site for $1,000. Later, the State acquired an easement right through a portion of the property for a state road and paid the utility $300.00 for the easement. Where should the $300 received from the State be credited?

Answer:

It is likely that the grant for a state road would be more than an easement, since the road is dedicated to public use. If the $300 received for the right granted represents a fair proportion of the cost of the land, then the amount may be credited in its entirety to the land account. However, if the $300 is more or less than the cost of property displaced, the cost should be recognized. The only other justification for crediting the $300 unqualifiedly to the substation site account is on the basis of the disposition of an excess of land, when of necessity the utility purchased somewhat more land than was actually required, to obtain the desired location. In general, the best theoretical accounting will be followed, if cost of the land or right disposed of is determined and the land account relieved accordingly.

No. 24 - E

Question:

A utility adds additional generating units to its generating plant and at the same time superimposes the existing units. The utility purchases all the necessary equipment and engages an outside firm to do the installation on a cost plus basis. Six months after the new units have been in operation, one of them breaks down and the utility incurs considerable expense in restoring it to service. Where should these expenditures be charged? The utility calls attention to the latter part of paragraph E, under Utility Plant Instruction 9, and desires to know whether the expenses incurred in restoring the unit to service can be charged to plant.

Answer:

It is assumed that when the unit was regarded as in operation, it had already been through the test period. Thereafter the repair expenditures to restore the unit to service are maintenance.

No. 25 - E

Question:

It is estimated that the cost of rewinding certain large generators in a hydro plant will occur about every twenty years. Should provision be made for such outlays by concurrently charging maintenance and crediting a reserve for deferred maintenance, or by inclusion of the item in the depreciation provision, or should the cost be charged to maintenance when it is incurred?

Answer:

If generator windings are not treated by the utility as retirement units, charge the cost of rewinding to maintenance expense in the year in which the expense is incurred. If rewinding of a generator is a retirement unit, it shall be accounted for as a replacement through the appropriate accounts for plant and accumulated provision for depreciation.

No. 26 - EG

Question:

Considerable damage has been done to utility property by storms. It has become necessary in some instances to go to great expense to replace individual units of property. If the total cost of installing the new plant is charged to plant, a very high unit price results. Is it permissible under such circumstances to charge a normal or "fair" cost to plant and to charge the remaining cost to maintenance?

Answer:

Each case should be considered on its merits and presented to the Commission. It is recognized under the conditions cited that the abnormal expenditure is due to the necessity of restoring the property to operating condition without delay and as such a part of the cost is chargeable to maintenance.

No. 27 - E

Question:

A utility replaces oil circuit breakers occasionally, using them at another location, and it desires to treat the cost of such removal and replacement as an operating expense such as is provided for in the cases of line transformers and meters. Should the request be approved?

Answer:

No. The cost of removal of oil circuit breakers and their replacement at another location should be accounted for as a retirement and reinstallation. (See Utility Plant Instruction 10-B and 10-C).

No. 28 - E

Question:

A utility follows the practice of retiring the installation costs of line transformers whenever such equipment is taken into the shop or moved to another location. When line transformers are reinstalled, the new installation costs are capitalized. Is the utility's practice permissible under the Uniform System of Accounts?

Answer:

No, such cost should be charged to Account 583 - Overhead Line Expenses, or Account 584 - Underground Line Expenses, as appropriate. It is the intent that the initial installation cost be capitalized and that such cost follow the transformer until it is ultimately retired.

No. 29 - EG

Question:

A utility provides parking space for employees' automobiles. The land is owned by the company and is used by employees of all departments. To what account should the expense of maintaining the parking lot be charged?

Answer:

The cost of maintaining the parking lot should be charged to Account 932 - Maintenance of General Plant.

No. 30 - EG

Question:

Note 3 C under Account 408b - Taxes Other Than Income Taxes, provides that "sales taxes shall be charged, as far as practicable, to the same account as the materials on which the tax is levied". Is it permissible under this provision to include such taxes in Account 163 - Stores Expenses, and clear that account each month through loading charges on issues during the month?

Answer:

Where it is impracticable to charge sales taxes to each item of material purchased for stock because of the large number of items, it is permissible to charge sales taxes to Account 163 - Stores Expense, and to clear the charges in the latter account through loading charges to stores issued during the month, provided that sales taxes on large, readily identifiable items are included in the unit cost of such items and are not included in the clearing account mentioned.

No. 31 - EG

Question:

What is the proper accounting for wages paid janitors and other building service employees?

Answer:

Wages paid to janitors and other building service employees should be distributed as far as practicable to the appropriate operating expense accounts under the functional groups for production, transmission, storage and distribution expenses. Such wages applicable to buildings used for customers accounts, sales and administrative and general functions should be charged to Account 920 - Administrative and General Salaries.

No. 32 - EG

Question:

Should salaries or wages of any kind ever be charged to Account 921 - Office Supplies and Expenses?

Answer:

No salaries or wages of any kind should be charged to Account 921 - Office Supplies and Expenses.

No. 33 - E

Question:

What accounting treatment should the following transaction receive, and should there be a different treatment in each of the cases A, B, C, and D:

An electric utility sells a half interest in some pole lines to a telephone company.

A. Part of the poles were newly set and the payment received was more than half the cost to the electric utility of the poles set.

B. Part of the poles were newly set and the payment received equalled one-half the cost to the utility.

C. Part of the poles had been in use a few years and the payment received equalled one-half the original cost set.

D. Part of the poles had been set a considerable time and the payment was less than half the original cost set.

Answer:

Where the sale of a part interest in a pole is made during the time of construction, or prior to the closing of the construction work order, the amount received or due shall be credited directly to the work order.

Where the sale is made subsequent to the closing of the construction work order, the appropriate plant accounts shall be credited with an appropriate proportion of the actual cost of the property sold (average unit costs can be used where equitable) and charged to accumulated provision for depreciation, and the amount received or due from the purchaser shall be credited thereto as salvage, and debited to accounts receivable or cash, as the case may be.

No. 34 - E

Question:

An electric utility has an agreement with a communication utility providing for the joint use of poles. Under the terms of this agreement either utility may occupy the poles of the other upon

the payment of a stipulated annual rental per pole. If such joint occupancy necessitates the use of a higher than standard (35 ft.) pole, the new pole shall be provided at the expense of the company making use of the facilities.

What is the proper accounting for the electric utility when:

A. The electric utility, at its own expense, replaces a standard pole belonging to the communication utility with a higher pole which becomes the property of the communication utility.

B. The communication utility, at its own expense, replaces a standard pole belonging to the electric utility with a higher pole which becomes the property of the electric utility.

Answer:

A. The cost of the higher pole in place, less net salvage value (if any) of the pole replaced, should be charged to the account in which the pole rental is included (See Operating Expense Instruction 3, Rents).

B. As the higher pole was installed solely for the convenience of the communication utility, there should be no accounting recognition given by the electric utility to the replacement except that a suitable memorandum entry should be made in the detailed plant records concerning the change.

No. 35 - E

Question:

What part of the steam piping between boiler plant equipment and turbogenerator units is includible in Account 312 - Boiler Plant Equipment, and what part is includible in Account 314 - Turbogenerator Units?

Answer:

On the inlet side of the turbine, the steam piping between the boiler and the main throttle is includable in Account 312 - Boiler Plant Equipment. Only that piping from the main throttle to the turbine inlet is includable in Account 314 - Turbogenerator Units.

On the exhaust side of the turbogenerator units, the piping between the turbogenerator and condenser and between the condenser and hotwell should be included in Account 314 - Turbogenerator Units.

No. 36 - E

Question:

Should smaller transformers similar to line transformers be included in Account 368 - Line Transformers, if they do not change the electric current to the voltage at which it is used by the customer?

Answer:

Smaller distribution transformers whose function is not to transform electricity to the voltage at which it is used by the customer, should be included in Account 362 - Station Equipment.

No. 37 - E

Question:

Is it permissible to include in Account 362 - Station Equipment, large substations taking energy off a high voltage transmission line and changing such energy to distribution voltage for the purpose of serving a single large industrial user?

Answer:

In classifying such equipment consideration must be given to the present and future use of the station. If it is used in connection with a feeder line to other customers, for example rural customers, or if it is expected that it will eventually be so used, it should be classified as station equipment and included in Account 362. No segregation need be made between transformers and other station equipment.

Generally, however, a transformer installation used in connection with energy delivered to a single customer at the voltage at which utilized should be classified among distribution plant accounts appropriate for the equipment, such as Account 364 for poles and towers supporting transformers and buses, Account 365, for buses, switches and other accessories, and Account 368 for line transformers.

No. 38 - E

Question:

What is the proper accounting for the cost of moving station transformers from one location to another, or the cost of converting station transformers into line transformers?

Answer:

When a station transformer is merely relocated within a station, the cost of relocation should be charged to maintenance. When the transformer is transferred from one station to another, or converted into a line transformer, the change shall be treated as a retirement and reinstallation.

No. 39 - EG

Question:

A utility conducts bus operations through a separate subsidiary company. In 1927, the bus company purchased a lot for $23,000, intending to erect a bus garage thereon. The bus company borrowed the money from the utility at the time of purchase and up to the present time has not paid the loan. Shortly after the purchase of the lot, the bus company sold its operations in the city where the lot is located but did not include the lot in the sale. No garage was ever erected and for the past six years the utility has been using the lot for a material storage yard. There has been no rental paid by the utility for the use of the lot and the utility considers that the rental offsets the interest on the money borrowed by the bus company. It may be stated that the bus company is carrying on a very profitable operation in another city at the present time.

The utility proposes to purchase the lot at the price paid by the bus company in 1927, namely $23,000. Two independent real estate firms recently appraised this lot for the utility at $10,000 and 10,500. The utility maintains that the provisions of Utility Plant Instruction 12 applies to the transaction and, therefore, $23,000 is the amount that should be recorded on the utility's books. The utility has petitioned the Commission's approval to purchase the lot at $23,000. Is this contention correct?

Answer:

No. Instruction 12 does not apply since the land was never devoted to the service of the public.

No. 40 - EG

Question:

A utility formerly had outstanding 3,700 shares of 7% cumulative preferred stock (par value, $50.00 per share) which was callable at a premium of $2.50 per share. The utility issued 3,700 shares of 6% cumulative preferred stock (par value, $50.00 per share) which was callable at a premium of $2.50 per share.

The greater portion of the new stock has been issued in exchange

for the old stock on a share-for-share basis. The remainder of the new stock was sold for cash at $52.50 per share; the cash proceeds were devoted to the reacquisition of the old stock at $52.50 per share.

A. Should the new stock which has been issued in exchange for old stock on a share-for-share basis be accounted for as though there were no premium paid on the old stock and no premium received from the sale of the new stock, or should premiums in both instances be implied?

B. Would it be proper, under the existing circumstances, to off-set the premium paid on the old stock reacquired for cash against the premium received on the new stock sold for cash?

Answer:

A. To the extent that the new stock was exchanged on a share-for-share basis for the old stock the appropriate amount included in the amount for 7% Preferred Capital Stock should be transferred to the account for 6% Preferred Capital Stock, for the reason that no call premium was paid on these shares of 7% Preferred Stock exchanged and no premium was received on the shares of 6% Preferred Stock issued in exchange.

B. The premium of $2.50 per share received on the new stock sold for cash should be credited to Account 207 - Premium on Capital Stock. The call premium on those shares of 7% Preferred Stock redeemed should be charged to Account 216 - Unappropriated Retained Earnings. No offset can be permitted.

No. 41 - EG

Question:

Several utilities which have refunded bond issues, have had substantial tax savings in the year the refunding occurred, because the unamortized debt discount, expense and call premium associated with the refunded securities is permitted as an income tax deduction during the year redeemed. Instead of showing the actual taxes paid or accrued in the tax account, the utilities in question have also included therein the amount of the tax saving due to the refunding operation with an offsetting credit usually to Account 181 - Unamortized Debt Expense. Is this permissible?

Answer:

No. The tax Account 409 should include only provision for actual taxes and the account should not be increased by the amount which would have been paid had the refunding transaction not occurred. In other words, there was an actual saving in taxes and this saving should be reflected in the income statement because it is a fact. It is believed, too, that the text of Account 409 does

not permit the accounting practice resorted to by the utilities in the illustration cited. (See also FERC General Instruction No. 17)

No. 42 - EG

Question:

With particular attention to text of Account 301 - Organization and Note B thereunder, what is the proper treatment of the following items?

A. The amount includible in Account 301 - Organization of Utility A and Utility B which were merged into Utility C.

B. The amount includible in Account 301 - Organization Utility C before the merger;

C. The expense of the merger;

D. The fees and expenses directly associated with obtaining an increase in the authorized stock to cover the merger requirements of additional capital stock due to recapitalization effected in connection with the merger;

E. Other expenses in connection with the issuance of additional capital stock pertaining to the recapitalization;

F. Amount includible in Account 301 - Organization of Utility C properly includible in the same account after Utility C changes its name to "D" without any other change.

Answer:

A. These amounts must be written off;

B. This amount will be includible in the accounts of Utility C after the merger.

C. In so far as the expenses of the merger do not duplicate expenses charged to Account 301 - Organization per B above, they are properly includible in such account;

D. These amounts are properly includible in Account 301 - Organization;

E. These amounts are includible in Account 214 - Capital Stock Expense;

F. The full amount properly includible in the account for Utility C is retained after the change in name.

No. 43 - EG

Question:

In a particular state it is required by law that each franchise or other territorial right be granted to a new corporation (requiring a separate corporation for each township). As a result, utilities are built up by a succession of mergers. Under these conditions, which of the following costs of organization and mergers are properly includible in Account 301 - Organization Expenses of A formed by merging B and C; B being a merger of D and E, C having acquired by purchase the franchises, property, etc., of F, and A subsequently acquiring G, a "paper" company formed to acquire additional territorial rights:

A. Organization costs incurred by A;
B. Cost of merging B and C incurred by A;
C. Organization cost incurred by B;
D. Cost of merging D and E incurred by B;
E. Organization costs incurred by D;
F. Organization costs incurred by E;
G. Organization costs incurred by C;
H. Costs of acquiring F incurred by C;
I. Organization costs incurred by F;
J. Cost of acquiring G incurred by A;
K. Organization costs incurred by G?

Answer:

With the exception of Item 1, all of the above items were required to organize the Company as it presently exists, and there are no duplications of costs. Consequently, all of the items except Item 1 are properly includible in Account 301 - Organization of A.

No. 44 - E

Question:

A public utility, in about 1903, was authorized by an Act of Congress to construct a dam and power house with pertinent equipment for generating electricity on a navigable river. The Act required the company to construct a lock, dry dock, and other navigation facilities, which cost the company $1,700,000, and to deed the latter to the United States Government when the project was ready for operation.

The cost of maintaining the lock, dry dock, and other navigation facilities was not to be borne by the company, and all replacement costs thereof were to be borne by the Government. The particular question involved the accounting for the $1,700,000. Should the amount be charged to Account 303 - Miscellaneous Intangible Plant, on the principle that it represents the cost of a license or a privilege, or should the amount be charged to Account 330 - Land and

Land Rights, or Account 332 - Reservoirs, Dams and Waterways.

Answer:

The amount is properly includible in Account 330 - Land and Land Rights based on the fact that the company for its expenditure obtained the right to build a dam on a navigable river and to use the water for power purposes.

No. 45 - E

Question:

What should be the accounting by electric utilities to record transactions under agreements whereby the electric utility conveys to a telephone company title to pole lines and agrees thereafter to pay one-half the cost of any poles installed as replacements, and receives as consideration the right to use the poles of the telephone company?

Answer:

The original cost less estimated accrued depreciation of the poles which are turned over to the telephone company should be treated as prepaid rents by the electric utility and spread over the remaining life of the poles through charges to operating expenses. Subsequent payments by the electric utility to the telephone company for one-half the cost of poles installed in replacement should be charged to the appropriate rent expense account as the payments are made. In cases where abnormal replacements are made because of the reconstruction of a line, the amount to be borne by the electric utility may be set up as prepaid rents and spread over the life of the new line.

No. 46 - EG

Question:

Holding company X owns all of the stock of operating utilities A, B, and C. The original cost of the property of each of the operating utilities is $2,000. The cost to X of the stock of each of the operating companies is $2,300.

A. What is the proper accounting in the event X sells the stock of B to A for $2,500, then A dissolves B?

B. What is the proper accounting in the event A buys the property of C for $2,500, whereupon X liquidates C?

C. What is the proper accounting if A writes up its own plant to the cost of its stock to X?

Answer:

A. The original cost of the property ($2,000) is chargeable to Account 101; the difference between the cost to X and the original cost ($2,300 - $2,000 = $300) is chargeable to Account 114; and the difference between the cost to A and the cost to X ($2,500 - $2,300 = $200) is chargeable to Account 116.

B. Same as A above.

C. The original cost of the property ($2,000) is chargeable to Account 101, and the write-up is chargeable to Account 116.

> Note: In all three cases the amount chargeable to Account 116 shall be disposed of as the Commission may approve or direct.

No. 47 - EG

Question:

An operating utility having common stock of no-par or stated value receives a cash contribution from its parent company.

A. May such contribution be credited to Account 208 - Donations Received from Stockholders, and then transferred to Account 201 - Common Stock Issued?

B. May such contribution be credited directly to Account 201 - Common Stock Issued?

Answer:

The answer is affirmative in each instance in the absence of any statutory provision requiring otherwise.

No. 48 - EG

Question:

A. What part, if any, of the carrying charges added to a customer's invoice for merchandise bought on credit terms should be credited to Account 415 - Revenues from Merchandising, Jobbing and Contract Work?

B. If any portion of the carrying charges is determined to be "interest" calculated purely on a percentage basis per annum, should this income be credited to Account 419 - Interest and Dividend Income?

C. When sales contracts, with "carrying charges" included are sold, or discounted at the bank at the same rate charged the customer, or at a different rate, should the discount suffered be

offset against the "carrying charges" charged the customer or should the total of such discount be charged to Account 431 - Other Interest Expense?

Answer:

A. All except "interest" calculated on a percentage basis per annum.

B. Yes.

C. The discount suffered should be charged to Account 431 - Other Interest Expense.

No. 49 - EG

Question:

What is the proper accounting under the Uniform System of Accounts for golf club dues, social club dues, service club dues (Rotary, Kiwanis, Etc.), house charges, and items of a similar nature?

Answer:

Such expenditures are chargeable to Account 426 - Other Income Deductions. They are not to be charged to operating expenses of the utility. This Interpretation applies whether the expenditures are made directly by the operating utility, indirectly through payments to an associated company, or are in the form of reimbursements to officers or other employees, or by any other direct or indirect means.

No. 50 - EG

Question:

For certain types of equipment, it is common practice for utilities to keep essential spare parts or auxiliary equipment on hand for emergency purposes. Is it permissible to record the cost of these spare parts or auxiliary equipment in the corresponding plant accounts or should they be recorded as Plant Materials and Operating Supplies?

Answer:

Spare parts or auxiliary equipment which are subject to use as normal periodic replacements should be recorded in Account 154 - Plant Materials and Operating Supplies. However, it is permissible to record in the related plant accounts the cost of spare parts or auxiliary equipment which are essential for emergency needs, are associated with specific plant in service, and are not subject to use as normal periodic replacements.

No. 51 - EG

Question:

A utility customer has discontinued service and has not claimed his deposit after notice to his last known address that the deposit was available to him.

A. How long should this unclaimed deposit remain in Account 235 - Customer Deposits?

B. What, if any, ultimate disposition should be made by utilities of such customers' deposits?

C. Is this ever income to the utility and, if so, to what account should it be credited?

Answer:

A. Until the legal liability of the utility to make such refund has elapsed.

B. When there is no further legal liability to refund such deposit, it should be transferred to the Accumulated Provision for Uncollectible Accounts retaining full information of all particulars or in accordance with applicable state laws.

C. No.

No. 52 - E

Question:

In the case of outdoor substations consisting only of the power equipment and its foundations, without buildings of any kind, should the following items be classified as Structures or as Equipment?

A. Structural steel used only for support of the wiring and equipment of the substation.

B. Fences enclosing the substation grounds, all other expenditures being chargeable as Equipment.

C. Driveways and landscaping of grounds about the substation, all other expenditures being chargeable as Equipment.

Answer:

A. The cost of construction of structural steel used to support equipment and wiring of an outdoor substation without a building, is properly includible in the appropriate equipment accounts.

B. If the fences are protective fences which isolate the

station equipment, the expenditures should be charged to the appropriate equipment accounts. The cost of other fences should be charged to the appropriate Structures and Improvements accounts.

C. Expenditures for driveways and landscaping of grounds should be charged to the appropriate Structures and Improvements accounts even though there may be no buildings or other items which would ordinarily be so classified.

No. 53 - EG

Question:

What should be the accounting for expenditures by an operating utility in reimbursement of officers' personal expense accounts arising from appearances of such officers on behalf of the utility's parent company in proceedings before the Securities and Exchange Commission or other regulatory commission?

Answer:

The above-mentioned expenditures should be reimbursed to the person making the outlay by the parent company for whose benefit they were incurred. If paid by the utility, the expenditures should be billed to the parent company. In no case are such expenditures properly includible in the operating expenses of the utility. If such expense accounts are assumed by the operating utility, they shall be charged to Account 426.5 - Other Deductions.

No. 54 - E

Question:

Shall special installations on customers premises of equipment normally includible in Accounts 362 - Station Equipment; 370 - Meters; and 372 - Leased Property on Customers' Premises, be included in those accounts or in Account 371 - Installations on Customer Premises?

Answer:

Property not generally furnished to customers but installed for individual customers, if such property is owned by the utility with responsibility on the utility to maintain and replace such property, shall be treated as special equipment and shall be included in Account 371 - Installations on Customers' Premises.

No. 55 - E

Question:

A utility constructs a line extension and installs substation equipment exclusively for the purpose of serving a defense facility. */ After the emergency the customer's plant may become idle or its power requirements may be substantially reduced.

In view of these circumstances, the utility requires the customer to advance an amount equal to the installed cost of the line extension and substation, minus the estimated salvage value. This advance, however, is to be refunded to the customer at an agreed percentage of the monthly power bills under the contract. In case of termination of the power contract before the end of a specified period, such as would result if the emergency should suddenly end, no further refunds may be required from the utility. It is expected that the advance will be entirely refunded within a period of five years or less.

*/ A defense facility for the purpose of this interpretation includes not only manufacturing or processing plants engaged in producing defense needs, but also army camps, naval air stations, air fields, shipyards, and other facilities created for defense.

A. Is it necessary that cost of the special facilities installed to serve the defense facility be charged by the utility to a special group of plant accounts and the cost of each installation separately accounted for?

B. To what account should the utility credit the advance received from the customer?

C. In event of termination of the power contract before the customer's advance has been entirely refunded, to what account should the unrefunded balance be credited?

D. Assume that instead of an advance for construction being required, as in some instances where the customer is the U. S. Government, it is agreed that the customer will pay the cost of the special facilities, minus salvage, in event of termination of the contract before the lapse of a specified period; that the cancellation payments is subject to reduction at a specified percentage of power bills rendered by the utility prior to termination of the contract.

Under these circumstances, to what account should the cancellation payment by the Government be credited by the utility in event the contract is terminated prematurely?

Answer:

A. Cost of the special facilities should be charged to Electric Plant in Service, and classified according to the appropriate

prescribed plant accounts. It is desirable, however, that subaccounts be utilized to show such special facilities separately from other electric plant. Special construction for each installation should be accounted for on a separate work order whether or not the construction cost is covered by a refund agreement with the customer.

B. The customer's advance should be credited to Account 252 - Customer Advances for Construction, whether designated in the contract as a connection charge, revenue advance, etc., or specifically as a construction advance.

> Note: If a portion of the advance is non-refundable the entire advance, nevertheless, should be credited to Account 252 and the entire advance carried in that account until ultimate determination is made of the amount which becomes non-refundable. The amount determined to be non-refundable shall be credited to the respective plant account as provided by the text of Account 252. (See also Electric Plant Instruction 2.D.)

C. The unrefunded balance of the customer's advance in event of termination of the contract should be transferred from Account 252 as a credit to the respective plant account as provided by the text of Account 252. If the special facilities are retired as a result of termination of the power contract, the unrefunded advance may be regarded as a part of the salvage realized and credited to the Reserve for Depreciation.

D. The cancellation payment is a partial reimbursement of the utility for special facilities installed to serve the customer. Therefore, the utility should credit the amount received to the plant accounts charged with the cost of such construction. (See Electric Plant Instruction 2.D.) If the facilities are retired as a result of termination of the power contract, the cancellation payment may be regarded as a part of the salvage realized and credited to the Reserve for Depreciation.

No. 56 - EG

Question:

When capital stock is sold at a premium, is it permissible to credit Account 207 - Premium on Capital Stock, with the net premium, that is, the premium realized from purchasers of the stock minus expenses otherwise includible in Account 214 - Capital Stock Expense?

Answer:

Account 207 - Premium on Capital Stock, Account 213 - Discount on Capital Stock, and the respective capital stock accounts are intended to include the amounts received from purchasers of capital

stock, but not expenses of issuing and selling stock. For each class and series of capital stock there should be recorded separately in the prescribed accounts the par or stated value of the stock, discount or premium, and the expenses incurred in connection with the issuance and sale of the stock. Should a utility desire to write off or amortize amounts recorded in Account 214 - Capital Stock Expense, the charge is required to be made to Account 211 - Miscellaneous Paid in Capital, in accordance with the texts of Account 214.

No. 57 - E

Question:

An electric utility owns and operates a coal mine to supply coal to the utility's steam power electric generating stations. Except for incidental sales to others of minor amounts, all coal from the mine is used for utility operations, supplemented by purchases from other sources. No land or other property is owned in excess of the normal amount required for coal mine operation.

A. What are the proper accounts in which to classify the original cost of the land, mineral rights, structures and improvements, and equipment comprising the coal mine property?

B. What is the proper accounting for the coal production expenses?

Answer:

A. Account 399 - Other Tangible Property, should be used, with subaccounts for Coal Mine Land and Land Rights, Coal Mine Structures, and Coal Mine Equipment, unless such coal mine property otherwise is required by a regulatory authority not to be included in Utility Plant in Service

B. A subdivision of Account 151 - Fuel Stock, should be charged with all coal production expense, coal mine superintendence and labor, operation and maintenance of coal mine structures and equipment, depreciation, depletion, taxes (except income taxes), rents for property leased from others (relating to the coal mine property), and the cost of transporting coal to the company's electric generating stations. Incidental sales of coal to others should be credited to Account 151. These amounts should be cleared to fuel costs of the generating stations using the coal, equitably on the basis of the coal used.

Adjustments of Account 151 to avoid serious distortion of generating station fuel costs, for such a reason as temporary curtailment of mining operations by the utility, may be charged to Account 557 - Other Expenses; however, before using Account 557 for this purpose a statement of the relevant facts should be submitted for consideration by the regulatory authority having jurisdiction

over the utility's accounting.

Where coal mine property, for which the facts are as stated above, is required by a regulatory authority not to be included in utility plant in service, the coal mine expenses and credits for coal transferred should be recorded in Account 417.1 - Expenses of Nonutility Operations.

No. 58 - EG

Question:

In probably all jurisdictions, upon the organization of a corporation specified fees must be paid. These fees are measured in different ways, the method pertinent to the present inquiry being the amount of authorized stock. In this particular jurisdiction, if several corporations merge or consolidate, then the amount of the fees payable by the resulting corporation is the difference between that calculated on the entire authorized stock of the resulting corporation after merger, and that which was paid previously by the parties to the merger or consolidation. If additional stock is authorized at any subsequent date, a fee must be paid thereon. In the state in question, the minimum authorized capital stock is $5,000.

An additional characteristic of the fees is that they relate to the total stock authorized and not to respective classes of stock. Thus, no additional fee would be payable if one class of preferred stock is retired and replaced by another class, provided there is no increase in the amount authorized to be issued, or if preferred stock is replaced by common stock with no increase in the authorized amount. In the case of no par stock, the aggregate stated value of the shares authorized is the basis for the fees. Where no-par stock has no stated value, the basis for the fees is the paid-in capital attributable to such shares.

The charter or bonus fees herein considered are not to be confused with fees paid by a utility to a public service commission or other authority for registration and permission to issue and sell an authorized amount of capital stock. This latter type of fee is chargeable to Account 214 - Capital Stock Expense.

A. What is the proper account to be charged with charter or bonus fees similar to those described above?

B. On the merger or consolidation of two or more companies where charter or bonus fees previously paid by the merged companies are permitted to be offset against the fees otherwise payable on the authorized capital stock of the continuing corporation, is it permissible to carry forward to the Organization account of the continuing corporation the charter or bonus fees included in the Organization accounts of the merged corporation's?

Answer:

A. Such charter or bonus fees should be charged to Account 301 - Organization. Attention is directed, however, to the above comments concerning fees paid by a utility for registration and permission to issue and sell an authorized amount of capital stock, to which this interpretation does not apply.

B. Under the circumstances described in the question, it is permissible for a continuing corporation of a merger or consolidation to record in Organization, Account 301, so much of the charter or bonus fees previously paid by the merged corporations as is available for credit against the fees otherwise payable on the authorized capital stock of the continuing corporation, or creditable against fees for future increases in the authorized capital stock.

No. 59 - EG

Question:

A. Account 922 of the Uniform System of Accounts provides there shall be shown therein amounts of administrative and general expenses which are properly includible as cost of construction. Questions have arisen as to the method of determining the amount of such expenses which may be capitalized.

B. Is the supervised expenditures or supervised payroll method (method whereby certain accounts or amounts are prorated between operating expenses and construction in proportion to direct charges) a permissible method of determining amounts transferable from administrative and general expenses to construction overheads?

Answer:

A. The amounts of administrative and general expenses which are capitalized are only those which have a provable relationship to construction. The use of percentage distributions, based upon assumed relationships between operating expenses and cost of construction, either in total or restricted to labor only, is a violation of Paragraph B of the Utility Plant Instruction 4, Overhead Construction Costs, which reads as follows:

> "B". As far as practicable, the determination of payroll 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.

In general, it is believed that the incremental cost basis is the preferred method of determining amounts of administrative and general expenses which should be capitalized. Under this method only the costs specifically incurred for construction - costs which would not be incurred if construction were not undertaken - are chargeable to construction. The use of this plan will avoid the effect of showing greater net income merely because of increased construction work. Where the incremental cost basis is not employed, general and administrative expenses can properly be distributed to construction only if studies are made to determine the amounts thereof which relate to construction activities. In the case of compensation for personal services, such studies should be based upon time records or upon periodic surveys of the activities of employees. Where daily time reports are not in effect, periodic studies should be made at least once a year and more frequently if construction fluctuates considerably. Such studies should show each employees' activities and the proportion of his time which is includible in construction account. Where the expenditures relate to other than compensation for personal services, it must be shown (1) that the expenditure has a relationship to construction activities and (2) that a reasonable basis has been evolved for determining the amount of proportion properly capitalizable. In no event is it permissible to assign to construction a proportion or percentage of a particular class of expenditures without first having established the relationship of the expenditures in question to construction work.

The records supporting allocations of administrative and general expenses to construction should; therefore, show (1) the relationship of the particular function to construction activities, (2) the proportion of each employee's time or each particular expenditure allocable to construction, and (3) the method of determining (2), that is time studies, daily time reports, etc.

B. No. Such methods violate the provisions of Paragraph B of Utility Plant Account Instruction 4.

No. 60 - G

Question:

Included in Account 303 - Miscellaneous Intangible Plant of a gas utility are amounts representing the cost of securing customers consisting of the cost of promotion, canvassing and soliciting, advertising, work on customer's premises, etc. The costs were incurred in towns in which no business had been done by the utility or any predecessor natural gas company.

In the determination of the original cost of utility plant, should the aforesaid amounts remain or be eliminated, and in the event of elimination, what disposition should be made?

Answer:

The amounts should be eliminated and prorated over a reasonable period by charges to the appropriate operating expense accounts applicable to the various items. If more than a reasonable time for amortization had elapsed since the inclusion of the charges in the plant account, the amounts should be included in Account 116 - Other Utility Plant Adjustments, and disposed of immediately by a charge to Account 216 - Unappropriated Retained Earnings.

No. 61- EG

Question:

A utility makes salary equalization payments, dependent upon the length of employee's service, over and above benefits received under compensation, hospitalization, and sickness insurance. Premiums on the compensation and insurance policies are charged to Employee Pension and Benefits and Injuries and Damages as appropriate. An interpretation is desired of the proper account to be charged with the equalization salary payments made by the company to supplement benefits received by temporarily incapacitated employees from the insurance companies.

Answer:

Such payments should be charged to Account 926 - Employee Pensions and Benefits, unless a reserve for such expenses is maintained in which event the accounting should be in accordance with the requirements of that reserve.

No. 62 - G

Question:

Account 111 - Accumulated Provision for Amortization and Depletion of Gas Utility Plant, paragraph C provides that natural gas rights which constitute an interest in a production area may be grouped to form one unit for depletion. Is the application of this provision restricted to cost of natural gas rights includible in Utility Plant Account 325.3 - Gas Rights, or is it intended to embrace all natural gas producing land and land rights?

Answer:

The term "natural gas land and land rights", as used in paragraph C of Account 111 - Accumulated Provision for Amortization and Depletion of Gas Utility Plant and in paragraph G of Utility Plant Instruction 7, Land and Land Rights, is intended to apply to all natural gas producing land and land rights, the costs of which are properly includible in Account 325.1 - Producing Lands, Account 325.2 - Producing Leaseholds, 325.3 - Gas Rights, when such property

constitutes an interest in a production area.

No. 63 - EG

Question:

Utility Plant Instruction 8, Structures and Improvements, includes as an item of the cost of structures "tunnels, intake and discharge, when constructed as a part of a structure, and those constructed to house mains."

The accounts of the gas system of account for transmission and distribution mains, states that "the records supporting this account shall be kept as to show separately the cost of mains of different sizes or types and of each tunnel, bridge, or river crossing." Tunnels are also listed in underground conduit in the electric system of accounts.

The question arises as to whether tunnels are intended to be included in the structures account or in the mains or conduit accounts, as appropriate.

Answer:

The inclusion of tunnels in the structures account contemplates tunnels which are an integral part of a structure, not tunnels generally. A tunnel housing mains not connected with a structure is includible in the mains account. A tunnel housing mains entering or leaving a structure is includible in the appropriate structure account. A tunnel housing more than one facility, e.g., water mains, power lines, etc., is a structure.

No. 64 - G

Question:

To what account shall be charged the cost of reacquiring unproven leaseholds formerly held but later abandoned or surrendered?

Answer:

The cost of reacquiring unproven leaseholds shall be accounted for as if the reacquisition cost were the first cost of the property acquired. The prior investment in such property should have been removed from the accounts at the time of abandonment or surrender. The cost of renewing leases which have not expired and which have not been surrendered or abandoned shall be charged to Account 795 - Delay Rentals.

No. 65 - EG

Question:

Under arrangements with another party, sometimes the United States Government, a utility company agrees, or is obliged, to remove, relocate, rearrange, reroute, or otherwise make changes in utility property, other than for the purpose of rendering utility service to the other party, for which the utility is reimbursed for all or a portion of the costs incurred. What is the proper accounting for such property changes and the reimbursements received from the other parties?

Answer:

The cost of plant retirements should be accounted for in accordance with the rules applicable thereto. The cost of new plant should be included in the appropriate plant accounts at actual cost of construction. The reimbursement received shall be accounted for (a) by crediting operation and maintenance expenses to the extent of actual expenses occasioned by the plant changes and (b) crediting the remainder to the reserve for depreciation, unless contractual terms definitely characterize residual or specific amounts as applicable to the cost of replacement. In the latter event, appropriate credits should be entered in the plant accounts.

No. 66 - EG

Question:

A clarifying interpretation is requested of the intent of paragraph B of Account 403 - Depreciation Expense, which reads as follows:

> "The utility shall keep such records of 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."

Does this paragraph mean that formal property records shall be kept in such detail as will at all times show in respect to all property or property retirements the data that could be useful in making depreciation studies?

Answer:

The paragraph quoted above contemplates that basic property and property retirement records shall be so kept that factual data helpful in estimating service lives of property by conventional

methods be available without undue delay for the purpose of making depreciation studies. It also contemplates that records be maintained so that percentages of salvage and cost of removal appropriate for use in depreciation studies can be reasonably determined. It is recognized that although salvage and cost of removal data may be readily ascertainable for certain classes of property, allocations may be necessary for certain other types of property particularly in connection with items includible in the mass property accounts. In such instances reasonable estimates of salvage and cost of removal may be made.

No. 67 - EG

Question:

When a project is abandoned on which preliminary survey and investigation charges have been included in Account 183 (Account 183.2 of gas system), what operating expense account should be charged with the expenses applicable to the abandoned project if they are written off to current operating expenses?

Answer:

Account 930.2 - Miscellaneous General Expenses or Account 426.5 - Other Deductions in accordance with the text of Account 183.

> Note: This interpretation does not apply to items includible in Account 183.1 - Preliminary Natural Gas Survey and Investigation charges, of the Uniform System of Accounts for Gas Utilities.

No. 68 - EG

Question:

A gas distribution system is constructed by a municipality to supply natural gas service within the incorporated area of the municipality in which no gas utility service had previously been available. Expected loads did not materialize as rapidly as anticipated and the municipality failed to realize any earnings in approximately two years of operations. Approaching default on its obligations, the system was sold to a private utility.

The purchasing utility proposes to account for the operating losses during the entire period of municipal operation as a component of original cost of plant. The utility claims that the construction period continued throughout the period of municipal ownership and that the operating losses should be capitalized under the provisions of Utility Plant Instruction 3 (18) relating to earnings and expenses during construction.

The construction had been substantially completed when service

was begun by the municipality and only minor additions and service losses during the period were made subsequently thereto.

In the circumstances stated, may the operating losses during the period of municipal ownership and operation be capitalized?

Answer:

No. Utility Plant Instruction 3 (18) of the Uniform System of Accounts for Gas Utilities provides as follows:

> "Earnings and expenses during construction" includes (a) all revenues derived during the construction period from property which is included in the cost of a project under construction and (b) all expenses which are attributable to the revenues received.

This provision applies only to earnings and expenses during the construction period. Since construction had been substantially completed and operations had begun, it must be concluded that the construction period had ended. Accordingly, the losses sustained after the plant was in operation may not be capitalized.

> Note: The facts stated in the question relate to a gas utility. The principle involved, in the answer; however, applies likewise to electric utilities.

No. 69 - G

Question:

A gas utility introduces natural gas to communities not previously served with gas. Purchases of natural gas from the pipeline company are made under a demand commodity type contract under which the contracted maximum daily Mc.f. is based on requirements in the third year after commencement of natural gas service. The actual peak day demands during the initial 3-year period of operations are less than the contracted maximum daily demands. The utility proposes to capitalize the cost of the demand as illustrated below.

Contracted daily maximum demand	30,000 Mc.f.
Actual peak day requirement	10,000 Mc.f.
Unused demand	20,000 Mc.f.
Cost of contract demand per Mc.f.	$30
Amount proposed to be capitalized ($30 x 20,000)	$600,000

The utility proposes to charge the cost of unused demand as compiled above to Account 303 - Miscellaneous Intangible Plant, (subaccount entitled "Natural Gas Development Costs") and to amortize such costs over a 30-year period by charges to operating expenses.

Is this accounting permitted under the System of Accounts for gas utilities?

Answer:

The cost of the natural gas purchased should be charged to Account 804 - Natural Gas City Gate Purchase, as incurred. There is nothing in the Uniform System of Accounts for gas utilities which permits the capitalization of such an item as a part of the cost of utility plant.

No. 70 - E

Question:

What is proper accounting for plant, operating revenue and operation and maintenance expenses in connection with the following?

A. An electric utility provides unmetered outdoor lighting service where the Company installs, operates and maintains the lighting fixture (standard street lighting fixture) mounted on a Company owned pole. This service may be used by either residential or commercial customers, in addition to their metered service. The lights are automatically turned on and off by photo-electric cells and are used primarily for yard lighting and protection of businesses. Billing, as in public street and highway lighting service, is determined by the lumen rating of the lamp installed and is made to the individual or business contracting for this security lighting service.

B. An electric utility provides street and highway lighting to unincorporated areas. Billing is made to civic groups or private individuals rather than governmental agencies, and is based on the lumen rating of the lamp installed.

Answer:

A. Under conditions stated in paragraph A:

(1) Plant investment should be charged to Account 371 - Installations on Customers' Premises.
(2) Revenue should be credited to Account 440 - Residential Sales, or Account 442 - Commercial and Industrial Sales, depending on the revenue account receiving the credit for metered service.
(3) Operation expenses should be charged to Account 587 - Customer Installation Expenses.
(4) Maintenance expenses should be charged to Account 598 - Maintenance of Miscellaneous Distribution Plant.

B. Under conditions stated in paragraph B:

(1) Plant investment should be charged to Account 373 -

Street Lighting and Signal Systems.

(2) Revenues should be credited to Account 444 - Public Street and Highway Lighting.

(3) Operation expenses should be charged to Account 585 - Street Lighting and Signal System Expenses.

(4) Maintenance expenses should be charged to Account 596 - Maintenance of Street Lighting and Signal Systems.

No. 71 - EG

Question:

A water utility purchased a dam across a stream from an electric utility, which had previously used water impounded by the dam in the generation of hydroelectric energy. The electric utility later decided to abandon the hydroelectric generation and the dam and the impounded lake land was sold to a water utility and used as a reservoir for its source of water supply.

The Uniform System of Accounts for Electric and Gas utilities provided that the original cost provisions shall apply to any utility plant "constituting an operating unit or system", which is acquired, but the system does not define an operating unit or system. In the case cited here, would the dam transferred from the electric utility to the water utility come under the original cost provisions of the system of accounts?

Answer:

The question as to what constitutes an operating unit or system for electric and gas utilities has never been delineated by the NARUC Committee on Accounts. Instead, the problem has been approached on a case-by-case basis. With respect to the particular circumstances here involved, it seems clear that a dam and flowage is an operating unit. When such property is purchased by a utility from another utility, which had previously dedicated it to utility service, the original cost provisions of the Uniform System of Accounts are applicable in accounting for the cost of the dam by the purchasing utility.

No. 72 - E

Question:

The system of accounts for major electric utilities provides that the cost installed of capacitors is includible in Account 368 - Line Transformers.

Account 596, Maintenance of Line Transformers, provides for inclusion of the costs incurred in maintenance of distribution line transformers, the book cost of which is includible in Account 368 - Line Transformers. However, Account 593 - Maintenance of Overhead

Lines, provides, in item 2(a) thereof, for the inclusion in the account of the cost of overhauling and repairing capacitor installations.

What is the correct prescribed accounting for maintenance of capacitors?

Answer:

The system of accounts requires editorial correction so that it is clear that maintenance of capacitors is includible in Account 595 - Maintenance of Line Transformers. The corrections necessary are as follows:

(1) Delete "and capacitor installations" from item 2(a) of account 593; insert "and" before "line breakers" in same item.

(2) Insert "and other equipment" after the words "distribution line transformers" in text of account 595.

Note: The NARUC system of accounts, revised 1976, incorporates the above corrections whereas the FERC system provides for the accounting as stated in the question. Based on the above answer and previous interpretations by NARUC, it would be appropriate to charge maintenance of capacitors to Account 595.

No. 73 - EG

Question:

What is the proper accounting for payments or allowances made by a utility to or on behalf of consumers, appliance or equipment dealers, contractors, realtors, or others, toward the cost of utilization facilities and wiring, piping, or other apparatus appurtenant thereto?

Answer:

The cost incurred by a utility in such activities should be charged to Account 912 - Demonstrating and Selling Expenses, if the program in accordance with which the payments are made is in no way dependent upon the purchase of appliances from the utility. In the latter event, the amounts should be charged to merchandising, jobbing and contract work. (See also interpretation No. 20 - E.)

No. 74 - EG

Question:

What fees and expenses of consultants are includible in Account

923 - Outside Services Employed?

Answer:

The costs of outside consultants engaged for a function, the cost of which is includible in the operation accounts of the administrative and general expense group of accounts (Accounts 920 to 931, incl.), are chargeable to Account 923.

No. 75 - G

Question:

How shall a utility account for (a) the investment in a liquefied natural gas storage facility, (b) the cost of stored liquid natural gas and (c) operation and maintenance expenses of such facility?

Answer:

(a) The investment in such facility shall be included in other storage plant accounts 360 - 363.5 as appropriate.

(b) The cost of liquified natural gas in storage shall be included in Account 164.2 - Liquefied Natural Gas Stored priced at the cost according to generally accepted accounting cost determination consistently applied from year to year.

(c) Cost of operating and maintaining the facility shall be charged as appropriate under accounts 840 - 843.9 as provided in the system of accounts under other storage expenses, and the cost of gas withdrawn or delivered to storage shall be recorded in Accounts 808.1 - Gas Withdrawn from Storage - Debit and 808.2 - Gas Delivered to Storage - Credit.

No. 76 - EG

Question:

When preparing returns covering taxes based on income, utility companies generally resolve all questionable items in their favor in order to arrive at the lowest possible tax. The companies realize that under this practice there quite probably will be assessment for deficient taxes plus interest at the time the return is audited. To compensate for this probable future liability, some utilities charge Account 409 - Income Taxes, and credit Account 236 - Taxes Accrued, with amounts sufficient to cover the estimated future liability for taxes as well as the interest thereon. Is this correct?

Answer:

Based on the detail contained in General Instruction 15 of the Uniform System of Accounts for Gas and Electric Utilities and the text of the instructions under Account 236, it is clear that a provision for interest on possible tax deficiencies not only should not be accrued but it is completely erroneous to provide for possible interest expense on a tax deficiency through a charge to Account 409. Interest on tax deficiencies should be charged to interest expense at the time the liability becomes known.

No. 77 - EG

Question:

The following questions pertain to the proper classification and handling of computer software.

A. Is software a capital item?

B. Is a purchased Resource or Materials Management System package a capital item?

C. If so, in what accounts should these items be recorded?

D. What is the normal life for depreciation purposes?

E. Do the guidelines for expensing and capitalizing maintenance and updating costs that apply to other plant equipment apply to these items also?

Answer:

A. Yes, software should be capitalized with the expensing of maintenance and nominal upgrades.

B. Yes, a purchased resource or materials management system should be capitalized if the costs exceed a specified dollar limit and the software has an extended useful life.

C. The Uniform System of Accounts does not currently have an account for computer software; however, it would be appropriate to include the capitalized amounts in a sub-account of Account 391 - Office Furniture and Equipment.

D. The normal life for depreciation purposes would vary significantly based upon the type of software and could range from 5 to 10 years.

E. The guidelines for expensing and capitalizing maintenance and updating costs that apply to other plant equipment should also apply to software, i.e., any major updates requiring significant capital outlay should require a

retirement and an addition to the software account.

No. 78 - EG

Question:

Interpretation number 12 deals with the accounting for services of affiliated companies and number 69 with deferred preliminary survey and investigation expenses. Would the answers to these interpretations apply also to amounts allocated to operating units of a holding company from the service company of the holding company?

Answer:

Yes.

No. 79 - EG

Question:

What is the proper accounting for amounts received by companies from suppliers of equipment and supplies, arising from claimed overcharges resulting from antitrust violations?

Answer:

Any amounts received arising from claimed overcharges resulting from alleged antitrust violations, including any interest factor, less expenses not heretofore charged to operations attributable to obtaining the refunds, whether such amounts are obtained through negotiation or litigation, shall be applied in the year of settlement to reduce the cost of plant or other accounts with which the materials purchased were associated. If the amounts received are minor and/or applicable to numerous items of properties, companies may with the approval of the Commission credit the depreciation reserve account or the current year's construction account. If the amounts received are payable on an installment basis over a period of years and the payments include an interest factor attributable to the delay in making settlement, the interest may be treated as other income. Any amounts received less related expenses should be reduced by any related tax liability.

No. 80 - EG

Question:

A. Section 11 of the Internal Revenue Code of 1954 was modified by the Revenue Act of 1964 reducing corporate tax rates effective January 1, 1964. Deferrals of the tax benefits credited to Account 281 - Accumulated Deferred Income Taxes-Accelerated Amortization,

from accelerated amortization permitted by Section 168 of the Internal Revenue Code of 1954, were based on the superseded income tax rates. What tax should be used to credit the deferred amounts to income?

B. Does the same answer to A. apply to reductions to corporate tax rates effective July 1, 1987 resulting from enactment of the Tax Reform Act of 1986?

Answer:

A. Amounts accumulated in Account 281 - Accumulated Deferred Income Taxes-Accelerated Amortization, shall be credited to Account 411 - Income Taxes Deferred in Prior Years-Credit, at the same rate that was originally used to defer the amounts in Account 281. Therefore, the amounts previously deferred will be fully restored to income over the appropriate estimated remaining useful life allowable for tax purposes of the related property.

B. Under the provision of section 203(e) of the Tax Reform Act of 1986, excess deferred taxes (statutorily provided deferred taxes at rates in excess of the current tax rate) are to be reversed at the "turnaround point" and then no more rapidly than would occur using the average rate assumption method.

The IRS, Rev. Proc. 88-12, has provided an alternative method of reducing excess deferred taxes when a utility or regulated company has been permitted by a regulatory agency to compute depreciation for public utility property on the basis of an average life or composite rate method. When the books and records do not contain adequate vintage account data, a "Reverse South Georgia Method" may be used.

No. 81 - G

Question:

What is the proper accounting for recognizing currently nonproductive gas well drilling costs for companies regularly involved in drilling operations?

Answer:

As actual drilling costs are incurred on wells classified as gas wells, they shall be recorded through work orders as charges to Account 107 - Construction Work in Progress-Gas, in sufficient detail to comply with General Instruction 12; Note B and to permit classification of such costs in Accounts 330 - Producing Gas Wells-Well Construction, and 331, Producing Gas Wells-Well Equipment, as appropriate.

Based on studies and prior experience, to provide currently for nonproductive well drilling expenses which reasonably may be

expected, the Company, at its option, may record monthly charges to operating expenses by crediting an appropriate subdivision of Account 107 and charging a subdivision of Account 796 - Nonproductive Well Drilling. Appropriate adjustment of these accounts shall be made annually (at year-end) for actual costs of wells determined nonproductive during the period and for the estimated cost of wells being drilled that are expected to be non productive.

For those net drilling costs incurred on natural gas leases acquired after October 7, 1969, which prove to be unproductive, shall be charged to Account 338 - Unsuccessful Exploration and Development Costs in accordance with note B to Account 796.

No. 82 - EG

Question:

What is the proper accounting for expenses incurred by a utility in the investigation of and responses to notices of proposed rulemakings or regulations of the Commission or state authorities?

Answer:

Rulemaking proceedings conducted by the Commission or by state authorities are considered to be formal cases before regulatory bodies as set forth in Account 928 - Regulatory Commission Expenses, and expenses (except pay of regular employees only incidentally engaged in such work) incurred with respect thereto are to be charged to Account 928 in accordance with the instructions provided in that account.

No. 83 - EG

Question:

What is the proper period for capitalization of allowance for funds used during construction?

Answer:

Allowance for funds used during construction (AFUDC) may be capitalized starting from the date that construction costs are continuously incurred on a planned progressive basis. Interest should not be accrued for the period prior to: (1) the date of issuance of the preliminary permit by the Commission of a licensed hydroelectric project; and (2) the date of the application to the Commission for a certificate to construct facilities by a natural gas company. AFUDC may be allowed by the Commission for the period prior to the above dates if so justified by the company. No AFUDC interest should be accrued during period of interrupted construction unless the company can justify the interruption as

being reasonable under the circumstances.

Capitalization of AFUDC interest stops when the facilities have been tested and are placed in or ready for service. This would include those portions of construction projects completed and put into service although the project is not fully completed. Should the test period exceed thirty (30) days, the company must submit full particulars and justification for an extension of such period of the Commission in accordance with Plant Instruction 9D.

No. 84 - E

Question:

A utility installs a gas turbine generating unit or units on its system, or on customers' premises, to provide electric service to some or all of its customers. Exhaust heat or heat produced in the operation of these generating units, is in turn used to produce steam which is also sold for steam heating, cooling, or other purposes. Electric service provided is billed at tariff rates and the heating or cooling service provided is billed in accordance with a contract between the parties and, in some cases, paid for partly in cash and partly in fuel supplied the utility by the customer for use in the production of electricity by the utility. What is the proper accounting for this type of operation?

Answer:

The exhaust heat sold, or used to produce steam which is sold, is incidental to the main function of producing electricity by the turbine generator and, therefore, is a by-product of such operation. Under the Uniform System of Accounts this should be accounted for by including all items of plant, including any special steam piping and equipment, in the appropriate electric plant accounts, and by including all revenues and expenses resulting from the operation of such equipment, whether stemming from the production and sale of electricity or of heat or steam, in the appropriate electric operations accounts. Specifically, revenues from any of such sale of heat or steam, whether or not they constitute a utility function under applicable state law, should be credited to Account 456 - Other Electric Revenues, and contra charges recorded in Account 142 - Customer Accounts Receivable. Fuel received as partial payment for electric and/or steam service should be valued in accordance with contract provisions (or at market value if no monetary value is stated in the contract) and charged to Account 501 - Fuel, or Account 547 - Fuel, as appropriate with contra credit to Account 142.

No. 85 - G

Question:

What is the proper accounting treatment for costs incurred in hydrostatic testing of gas mains and pipelines to meet the requirements of the USAS B31.8, 1968 Code, which became Federal standards under legislation passed by Congress August 12, 1968?

Answer:

Costs incurred under a planned maintenance program which meet the standards of USAS B31.8, 1968 Code, should be treated as regular maintenance expenses. When a utility had constructed a pipeline and its initial tests did not meet the requirements of the Code making it necessary to retest so that the full capabilities could be utilized such costs should be capitalized. When such costs are capitalized all prior testing costs related to the specific property should be retired in accordance with Gas Plant Instruction 10. Testing costs on future construction should be capitalized provided that such testing meets the then prevailing required standards.

No. 86 - EG

Question:

What is the proper accounting for revenues received from the States, or other political subdivisions of the United States for collecting and remitting certain withholding, sales, local occupational, etc. taxes?

Answer:

Amounts received from utility operations should be recorded in Account 456 - Other Electric Revenues, for electric utilities and in Account 495 - Other Gas Revenues, for gas utilities. Related costs should be included in the appropriate utility operation expenses.

Any revenues or expenses related to the collection of such taxes from nonutility operations should be included in the appropriate nonutility revenue and expense accounts.

No. 87 - G

Question:

What is the proper accounting and reporting for amounts collected under an approved RD&D cost adjustment provision and paid to the Gas Research Institute (GRI) authorized by Opinion No. 11 of the Federal Energy Regulatory Commission?

Answer:

Gas companies with Research, Development, and Demonstration adjustment provisions providing for surcharges to finance GRI funding requirements should record the surcharge in the appropriate operating revenue account for the class of customer served. Upon recording of the revenues, the company should establish a liability for payment to GRI for surcharge collections. The amount of the liability should be charged first to Account 188 - Research, development, and demonstration expenditures, and concurrently expensed to Account 930.2 - Miscellaneous general expenses.

Companies should maintain necessary subsidiary records to separately identify the collections and payments to GRI.

No. 88 - EG

Question:

What is the proper accounting treatment for expenditures made by the utility, resulting from employment practices that were found to be discriminatory by a judicial or administrative decree or that were the result of a compromise settlement or consent decree?

Answer:

The Uniform System of Accounts provides that all charges to utility operating expense accounts must be just and reasonable. Expenditures of the nature mentioned above that can be readily identified and quantified should not be considered as just and reasonable charges to utility operations and should be classified to the appropriate nonoperating expense accounts.

Types of expenditures usually related to discriminatory employment practices may include, but are not limited to, the following:

1. fines or penalties related to judicial or administrative decree imposed by governmental authorities,

2. legal fees reimbursed to plaintiffs,

3. in-house and outside legal costs in unsuccessful defense against charges of discriminatory practices,

4. damage awards to plaintiffs

5. duplicate labor cost such as back pay, bonus or other pay awards to plaintiffs where other employees have already been paid by the utility for prior services, and

6. cost of reporting, training and recruiting undertaken as a result of a court order, administrative decree or settlement which

are in addition to those which otherwise would be incurred to assure continuing equal employment opportunity.

Fines or penalties are to be recorded in Account 426.3 - Penalties, and all other costs are to be recorded in Account 426.5 - Other Deductions.

No. 89 - E

Question:

A. Why are sales of economy energy recorded as credits to an expense rather than to a revenue account?

B. Is it intended that Account 555 include revenues from economy energy sales even when a utility is exclusively selling energy rather than exchanging or buying it?

C. An energy broker system exists whereby electric utilities with short-term energy "surpluses" market their energy on an economy basis to other electric utilities. At any given point in time, an individual utility may be either a seller or a buyer. Are these economy energy transactions exchanges or distinct sales?

Answer:

A. Distinct sales of economy energy should not be recorded as a credit to Account 555, but instead, should be recorded in the appropriate revenue account. Account 555 is intended to include only the net settlements (debit or credit) for economy or other energy where it is intended that deliveries under an interchange agreement, for the most part, are to be settled through redelivery of energy.

B. It is not intended that Account 555 include economy energy transactions that are intended to be distinct sales.

C. The transactions have the characteristics of distinct sales and therefore should be recorded as revenues. The transactions are not pooling transactions and reimbursements are not intended to be made through exchanges of energy.

No. 90 - E

Question:

What is the proper treatment of company consumed energy?

Answer:

Company consumed power is a part of doing business and its treatment would be similar to that of line losses. Power consumed

on a construction project should be metered and the cost of the power capitalized to the construction project.