

software to ensure there is continuity of business and communication with our customers during all stages of operations including normal and emergency operations.

Q. WHAT IS THE SAP S/4 TRANSFORMATION AND PHASE 0 ACTIVITY?

A. The SAP S/4 Transformation program includes multiple elements and stages: (1) the creation of a “roadmap”—the initial evaluation to determine high-level effort, timing, and cost; (2) Phase 0 “Blueprint”—the creation of a more detailed analysis to determine the scope and plan the project, (3) “Detailed Design” Phase—the identification and planning of the specific tasks needed to implement the blueprint; and (4) “Implementation” Phase. The Company has completed the roadmap phase and is beginning Phase 0, which it plans to complete by the end of the year. The Company currently anticipates completing the Detailed Design and Implementation phases by 2027; however, this timeline may change after the completion of Phase 0.

Q. WHAT BENEFITS WILL THE SAP S/4 TRANSFORMATION AND PHASE 0 ACTIVITY PROVIDE?

A. While the existing system has served the Company well for more than 25 years, the system is nearing the end of its life. The manufacturer has announced it will no longer support the existing system, which will make it difficult and expensive for the Company to continue to maintain it. Additionally, the existing system struggles to handle the large volumes of data generated by modern software, data which enables the Company to make better-informed operational decisions and to respond more quickly to outages and fluctuations in demand. Transitioning the Company’s software system to the latest SAP version, S/4HANA (“SAP S/4”), will enable the Company to provide a higher level of grid resiliency, enhance business process core functionality, and provide an overall improvement to the Company’s

business processes, supporting transmission and distribution system resilience. This would include the transformation of business processes related to asset maintenance, field operations, customer services, planning, application high availability, and disaster recovery, among other opportunities.

Additionally, it will enable the migration of critical SAP based applications to the cloud. Benefits of cloud migration include higher availability provided by cloud systems, advanced security capabilities provided by the cloud, and enhanced resiliency, business continuity and disaster recovery capabilities by hosting the applications in multiple geographic regions close to, and far from, the greater Houston area. The cloud model also adds layers of defense by providing security measures to protect an organization's assets, as well as offering resiliency and stability to the transmission and distribution systems.

The Company has confirmed that its proposed adoption of SAP S/4 is consistent with the approaches taken by other large investor-owned utilities. In fact, 16 of the 25 top North American investor-owned utilities have adopted or are in the process of adopting the SAP S/4 platform.

Q. DO YOU AGREE THE SAP S/4 TRANSFORMATION AND PHASE 0 ACTIVITY AS DESCRIBED IN THE COMPANY'S RESILIENCY PLAN ARE NECESSARY FOR GRID RESILIENCY?

A. Yes.

VII. CONCLUSION

Q. SHOULD THE COMMISSION APPROVE THE COMPANY'S RESILIENCY PLAN?

A. Yes.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes

EXHIBIT RWB-1

GLOSSARY OF ACRONYMS

CenterPoint Houston or the Company	CenterPoint Energy Houston Electric, LLC
CNP	CenterPoint Energy, Inc.
Commission	Public Utility Commission of Texas
ERCOT	The Electric Reliability Council of Texas
Information Technology	Information technology includes, but is not limited to, activities, standards, policies, procedures, practices, hardware or software, services, and supporting infrastructure and systems used to support metering, billing, customer service, work management, data analysis and interrelated enterprise systems, and to manage, store, retrieve, deliver, or protect information or associated information technology assets for both on premise and cloud-based platforms. Information technology also includes, but is not limited to, activities, standards, policies, procedures, practices, hardware or software, services, and supporting infrastructure used to manage, monitor, protect, or control information and associated technology assets to operate or facilitate the operation of an electric utility's transmission and distribution system, including programmable systems or devices that interact with the physical environment (or manage devices that interact with the physical environment through secure communications networks) and detect or cause a direct change through the monitoring and/or control of devices, processes, and events and may include industrial control systems, building management systems, fire control systems, and physical access control mechanisms.
kV	kilovolt
O&M	Operations and maintenance
Resiliency Event	A low frequency, high impact event that, if not mitigated, poses a material risk to the safe and reliable operation of the Company's transmission and distribution system.
Resiliency Measure	A measure designed to mitigate the risks posed to the Company's transmission and distribution system by a Resiliency Event
REPs	Retail electric provider
SCADA	Supervisory control and data acquisition
Service Company	CenterPoint Energy Service Company, LLC
SOX	Sarbanes-Oxley Act of 2002

DOCKET NO. 56548

**APPLICATION OF CENTERPOINT
ENERGY HOUSTON ELECTRIC, LLC
FOR APPROVAL OF ITS
RESILIENCY PLAN**

**§
§
§
§**

**PUBLIC UTILITY
COMMISSION OF TEXAS**

DIRECT TESTIMONY OF

JEFF W. GARMON

FOR

CENTERPOINT ENERGY HOUSTON ELECTRIC, LLC

APRIL 2024

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<u>Exhibits</u>	<u>Description</u>
Exhibit JWG-1	Capitalization Policies
Exhibit JWG-2	FERC 18 CFR Part 101 (Uniform System of Accounts)
Exhibit JWG-3	Illustrative Carrying Cost Calculation

GLOSSARY OF ACRONYMS

CFR	Code of Federal Regulations
CNP	CenterPoint Energy, Inc.
DCRF	Distribution Cost Recovery Factor
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
GAAP	Generally Accepted Accounting Principles
O&M	Operations and Maintenance
PUCT	Public Utility Commission of Texas
PURA	Public Utility Regulatory Act
SOX	Sarbanes-Oxley
TAC	Texas Administrative Code
TCOS	Transmission Cost of Service
USOA	Uniform System of Accounts

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A. My name is Jeff W. Garmon. I am Director of Regulatory Reporting for CenterPoint Energy Service Company, LLC (“Service Company”). My business address is 1111 Louisiana St., Houston, Texas 77002.

Q. PLEASE TELL US ABOUT YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. I graduated from Christopher Newport University with a Bachelor’s degree in Business Administration with a concentration in Accounting and from the College of William & Mary with a Master’s degree in Accounting. I began my career at the Virginia State Corporation Commission as an auditor for Commission Staff’s Utility Accounting & Finance division. In December 2017, I joined CenterPoint Energy, Inc. (“CNP”) as a Supervisor, Regulatory Reporting. In October 2020, I was promoted to Manager, Regulatory Reporting. I assumed my current role in January 2022 as Director, Regulatory Reporting. I am a Certified Public Accountant in the State of Virginia.

Q. WHAT ARE YOUR CURRENT RESPONSIBILITIES?

A. As Director of Regulatory Reporting for CNP, I am responsible for the regulatory reporting of the regulated gas and electric businesses in the states of Indiana, Louisiana, Minnesota, Mississippi, Ohio, and Texas for CNP. As such, I am responsible for ensuring that CNP has adequate staff, processes, and systems in place to meet its regulatory accounting and reporting requirements for the aforementioned states. In addition, I am responsible for the adequacy of certain internal controls, including compliance with §404 of the Sarbanes-Oxley Act of 2002 (“SOX”) as it relates to CNP’s regulated operations.

1 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

2 A. I am testifying on behalf of CenterPoint Energy Houston Electric, LLC (“CenterPoint
3 Houston” or the “Company”), which is an electric transmission and distribution service
4 provider in the Electric Reliability Council of Texas, Inc. region.

5 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE THE PUBLIC
6 UTILITY COMMISSION OF TEXAS OR OTHER REGULATORY
7 AUTHORITIES?**

8 A. Yes. I have presented testimony before the Public Utility Commission of Texas (“PUCT”
9 or “Commission”) on behalf of CenterPoint Houston in Docket Nos. 53442, 54825, 54830,
10 and 55993. I have also presented testimony before the Texas Railroad Commission on
11 behalf of CenterPoint Energy Resources Corp. (“CERC”) and before the Virginia State
12 Corporation Commission as a member of Commission Staff. In addition, I have supervised
13 the compilation of accounting information used for periodic reporting requirements and
14 various CNP rate and regulatory proceedings before public utility commissions in the states
15 of Arkansas, Indiana, Louisiana, Ohio, Oklahoma, Minnesota, Mississippi, and Texas.

16 **II. OVERVIEW OF TESTIMONY**

17 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

18 A. The purpose of my testimony is to support the Company’s application for approval of a
19 Transmission and Distribution System Resiliency Plan (“Resiliency Plan”) and cost
20 recovery pursuant to Public Utility Regulatory Act (“PURA”) § 38.078 and 16 Texas
21 Administrative Code (“TAC”) § 25.62, relating to Resiliency Plans. Specifically, my
22 testimony explains the Company’s policies and procedures as they relate to the proper
23 treatment of expenditures and capital investment. I also discuss the application of the

1 Company's policies and procedures within the context of the Company's Resiliency Plan
2 and the resiliency measures contained therein, which are designed to mitigate the risks
3 posed to the Company's transmission and distribution system ("Resiliency Measure"). My
4 testimony also requests certain accounting language, as permitted by PURA § 38.078(k),
5 and explains the calculation of related carrying costs.

6 **Q. HOW DOES YOUR TESTIMONY RELATE TO THE OTHER COMPANY**
7 **WITNESSES PROVIDING DIRECT TESTIMONY IN THIS DOCKET?**

8 A. My testimony, in conjunction with the direct testimony provided by Company witnesses
9 Brad Tutunjian and Ronald Bahr, establishes that this filing complies with PURA § 38.078
10 and 16 TAC § 25.62. Mr. Tutunjian explains how the Company developed its Resiliency
11 Plan and gives a high-level description of the Resiliency Measures related to operations.
12 Similarly, Mr. Bahr explains the Company's methodology in developing its Resiliency
13 Plan from a technological perspective, including explaining how and why the Company
14 chose the IT-related Resiliency Measures in the Resiliency Plan. My testimony discusses
15 the accounting related to these Resiliency Measures.

16 **III. ACCOUNTING POLICIES AND PROCEDURES**

17 **Q. DOES THE COMPANY HAVE ADEQUATE POLICIES AND REVIEW**
18 **PROCEDURES IN PLACE FOR ITS RECORDED INVESTMENTS AND**
19 **EXPENDITURES?**

20 A. Yes. As detailed below, the Company's processes, controls, and training ensure the proper
21 recording and classification for investments and expenditures.

22 **Q. HOW DOES THE COMPANY ENSURE THAT TRANSACTIONS ARE**
23 **PROPERLY RECORDED?**

1 A. The Company maintains a system of internal controls. An internal control is simply a
2 process that is effectuated through written policies and procedures that are followed by
3 management and other personnel. The Company's internal controls with respect to the
4 classification of projects between distribution and transmission investments has two major
5 objectives:

- 6 • to ensure that financial statements are fairly presented in conformity with generally
7 accepted accounting principles ("GAAP") and contain no material misstatements,
8 and
- 9 • to ensure compliance with applicable laws and regulations, including adherence to
10 SOX.

11 **Q. HOW DO THE COMPANY'S POLICIES DETERMINE WHETHER AN**
12 **EXPENDITURE SHOULD BE TREATED AS A CAPITAL ASSET OR AS AN**
13 **EXPENSE?**

14 A. The Company's Capitalization Policies, provided in Exhibit JWG-01, govern whether an
15 expenditure should be treated as a capital addition or an expense. The Capitalization
16 Policies were developed in accordance with Federal Energy Regulatory Commission
17 ("FERC") instructions on Additions and Retirements of Electric Plant, as seen in Exhibit
18 JWG-2, and GAAP.¹ As noted in the policy itself, the purpose of the Capitalization Policy
19 "is to provide the criteria for expenditure capitalization and addition to the capital base."
20 To this end, the Capitalization Policy addresses the timing of work order completion (Page
21 1), and also defines and explains the policies relevant to retirement units (Page 2),

¹ The various FERC guidelines are voluminous but are generally publicly available at <https://www.ferc.gov/accounting-matters-1>.

1 substantial minor items (Page 2), and less than substantial minor items (Page 3). Similarly,
2 the Capitalization Policy explicitly lists the types of investment that may be capitalized, to
3 guide employees when they code an expenditure as capital or expense (Page 4). In short,
4 the document provides employees with rules governing the accounting treatment of various
5 capital assets.

6 **Q. WHICH DEPARTMENT WITHIN THE COMPANY IS CHARGED WITH**
7 **IMPLEMENTING THE CAPITALIZATION POLICY, AND HOW DOES THAT**
8 **DEPARTMENT ENSURE THE AMOUNTS CODED TO CAPITAL ARE**
9 **ACCURATELY RECORDED?**

10 A. Property Accounting is charged with implementing the Capitalization Policy. When field
11 work (memorialized through a work order) is complete, an analysis of the materials
12 charged to the work order takes place. This analysis may be conducted systematically or
13 manually depending on the type of asset being constructed. With respect to routine
14 construction activities using stock material, the process is typically automated. Manual
15 processing is required for orders that are associated with large, non-routine projects that
16 use special order or non-stock materials. If a work order is found to lack proper items for
17 capitalization, such as materials, that work order is rejected and must be corrected to move
18 forward through the review process. Pursuant to the Capitalization Policy, retirement units
19 are assigned based on the activity and materials used. Consistent with the FERC Uniform
20 System of Accounts (“USOA”), the FERC account assigned to the capital corresponds to
21 the retirement unit.

22 **Q. PLEASE DESCRIBE THE FERC USOA.**

1 A. The FERC USOA is a regulatory accounting and financial reporting regime established by
2 FERC. Utilities use the FERC USOA for regulatory accounting matters. The FERC USOA
3 establishes a classification scheme that utilities use to classify plant in service as: intangible
4 plant, production plant, transmission plant, distribution plant, and general plant. The
5 Commission's substantive rules related to ratemaking require the Company to follow the
6 FERC USOA. The Company maintains its books according to the FERC USOA. Its
7 enterprise management software system (SAP) tracks all costs by FERC Account, and only
8 those FERC distribution accounts eligible for recovery through the Resiliency Plan are
9 included in the Company's application. These are the same books that are audited by the
10 Company's independent auditor every year, auditing not only the Company's actual costs
11 for the year, but that the Company followed its processes and internal controls as well.
12 These are also the same processes and controls that were in place prior to the Company's
13 last base rate proceeding in Docket No. 49421 and have been in place for all investment
14 recovered through interim distribution cost recovery factor ("DCRF") and interim
15 transmission cost of service ("Interim TCOS") proceedings since Docket No. 49421.

16 **Q. DO ANY PROCESSES AND CONTROLS ENSURE THAT WORK ORDERS ARE**
17 **PROPERLY AND ACCURATELY COMPLETED?**

18 A. Yes. On a monthly basis, testing is performed in accordance with the CNP SOX control,
19 "Manage Fixed Assets." The Company's Property Accounting Department randomly
20 selects a sample of capital orders that have been completed, processed, and closed. An
21 accounting analyst then tests each order selected and provides evidence from SAP that the
22 order meets the specifications of being a capital order, including the appropriate retirement
23 units.

1 **Q. ARE THE INTERNAL CONTROLS OVER CAPITALIZATION SUBJECT TO**
2 **REVIEW FOR COMPLIANCE WITH SOX REQUIREMENTS?**

3 A. Yes. Pursuant to those controls, on a quarterly basis, the Company's Property Accounting
4 staff samples the automated capital additions and reviews the sample to ensure that the
5 dollars are capitalized to the appropriate retirement unit.

6 **Q. ARE THE COMPANY'S CAPITAL ADDITIONS AUDITED?**

7 A. Yes. During the Company's annual audit, the Company's external auditor samples and
8 reviews capital additions and compliance with the Capitalization Policy.

9 **Q. HOW DOES THE COMPANY ALLOCATE CAPITAL COSTS BETWEEN THE**
10 **DISTRIBUTION AND TRANSMISSION FUNCTIONS?**

11 A. The Company's same processes for determining the allocation of capital costs between the
12 distribution and transmission functions will be applied in its determination as it relates to
13 the Company's Resiliency Plan, which are discussed in the direct testimony of Mr.
14 Tutunjian.

15 **IV. ACCOUNTING FOR RESILIENCY PLAN EXPENDITURES**

16 **Q. PLEASE SUMMARIZE THE RESILIENCY PLAN ESTIMATED COSTS.**

17 A. The total estimated spend under the Company's Resiliency Plan is approximately \$2.28
18 billion, which comprises both Operations & Maintenance ("O&M") expense and capital
19 costs. Capital cost estimates along with a listing of Company witnesses sponsoring the
20 associated amounts are summarized in Figure JWG-1 below.

**Figure JWG-1
Resiliency Plan Capital Cost Estimates**

Resiliency Plan Capital Cost Estimates (in millions)			
Resiliency Plan Categories	Witness	Estimated Capital Cost	Estimated Distribution - Related
Hardening Facilities	Tutunjian	\$ 1,452.9	\$ 504.3
Modernizing Facilities	Tutunjian	214.7	143.3
Flood Mitigation	Tutunjian	37.6	24.9
System Security	Tutunjian	34.5	8.7
Information Technology for Operations	Tutunjian/Bahr	260.7	255.8
Information Technology	Bahr	54.1	27.1
Vegetation Management	Tutunjian	-	-
Wildfire Mitigation	Tutunjian	137.2	98.3
Total		\$ 2,191.7	\$ 1,062.3

Likewise, O&M estimates along with a listing of Company witnesses sponsoring the associated amounts is summarized in Figure JWG-2 below:

**Figure JWG-2
Resiliency Plan O&M Estimates**

Total Estimated O&M (in millions)			
Resiliency Plan Categories	Witness	Estimated O&M Cost	Estimated Distribution - Related
Hardening Facilities	Tutunjian	\$ 1.5	\$ 0.1
Modernizing Facilities	Tutunjian	1.0	0.9
Flood Mitigation	Tutunjian	-	-
System Security	Tutunjian	0.1	0.0
Information Technology for Operations	Tutunjian/Bahr	14.5	14.4
Information Technology	Bahr	0.2	0.1
Vegetation Management	Tutunjian	25.0	25.0
Wildfire Mitigation	Tutunjian	43.6	31.3
Total		\$ 85.9	\$ 71.8

1 The amounts shown in Figure JWG-2 above are for the entire term of the three-year
2 Resiliency Plan from 2025-2027. As explained later in my testimony, the Company will
3 seek to defer incremental distribution-related costs to a regulatory asset for future cost-
4 recovery.

5 **Q. WILL THE COMPANY FOLLOW AND APPLY CNP ACCOUNTING PROCESS**
6 **AND PROCEDURES FOR THE RESILIENCY MEASURES IN THE COMPANY'S**
7 **RESILIENCY PLAN?**

8 A. Yes. The Company will record costs associated with Resiliency Measures in the
9 Company's Resiliency Plan in accordance with the FERC USOA. Additionally, the
10 Company will follow CNP's Capitalization Policy and Capitalization of Computer
11 Software Policy to determine whether a Resiliency Measure is to be treated as a capital or
12 O&M expense. Work orders for Resiliency Measures will undergo the thorough review
13 process that I previously described in my testimony. This includes testing and sampling
14 performed to ensure SOX compliance, as well as inclusion in the scope of review by the
15 Company's external auditors.

16 **Q. FOR THE RESILIENCY MEASURES WITH ESTIMATED CAPITAL COSTS,**
17 **HOW WILL THOSE COSTS BE RECORDED?**

18 A. As I have previously stated, all recordings for Resiliency Measures will be in accordance
19 with Company policy and the FERC USOA, and as such the ultimate FERC Account(s)
20 will depend upon the specific facts and circumstances for the underlying costs of the
21 Resiliency Measures at the time of the expenditure.

22 **Q. HOW WILL THE COMPANY TRACK RESILIENCY PLAN COSTS?**

23 A. Once approved, the Company will track Resiliency Plan costs through functionality

1 available within SAP—specifically, work orders and Work-Breakdown Structure (“WBS”)
 2 elements. This functionality allows for costs related to specific projects or activities to be
 3 separately tracked and maintained. Capital projects associated with the Company’s
 4 Resiliency Plan will have their own work orders, with other incremental expenses being
 5 captured by specific WBS elements. In this manner, there will be a clear line of sight for
 6 Resiliency Plan costs.

7 **V. REQUEST FOR ACCOUNTING LANGUAGE**

8 **Q. IS THE COMPANY REQUESTING APPROVAL OF A RESILIENCY PLAN COST**
 9 **RECOVERY RIDER AS PART OF ITS RESILIENCY PLAN FILING?**

10 A. No.

11 **Q. IS THE COMPANY REQUESTING CERTAIN ACCOUNTING LANGUAGE AS**
 12 **PART OF ITS SYSTEM RESILIENCY PLAN FILING?**

13 A. Yes. PURA § 38.078(k) permits deferral of distribution-related costs relating to the
 14 implementation of a utility plan. As part of Commission approval of the Company’s
 15 Resiliency Plan, the Company requests the following language in any Commission order
 16 approving the Company’s Resiliency Plan:

17 CenterPoint Houston may defer all or a portion of the distribution-related
 18 costs relating to the implementation of the Company’s Resiliency Plan for
 19 future recovery as a regulatory asset, including depreciation expense and
 20 carrying costs at the Company’s weighted average cost of capital as
 21 established by the Commission’s final order in the Company’s most recent
 22 base rate proceeding, and use Commission-authorized cost recovery
 23 alternatives under 16 Tex. Admin. Code §§ 25.239 and 25.243 or another
 24 general rate proceeding.

25
 26 The distribution-related costs to be deferred are not limited to solely depreciation expense
 27 and carryings costs, but also include other incremental costs of the Resiliency Plan, such
 28 as O&M or property tax. Additionally, carrying costs refers to not only carrying costs on

1 the balance of the regulatory asset, but also to carrying costs on the net Resiliency capital
2 investment in service that is not being recovered through rates. As I described earlier in my
3 testimony, the Company's accounting systems allow for separately tracking and
4 maintaining costs, thereby facilitating such deferral.

5 **Q. PLEASE EXPLAIN THE CARRYING COST CALCULATION.**

6 A. The Company would calculate carrying costs by applying the Company's pre-tax weighted
7 average cost of capital to the cumulative balance of the regulatory asset with two notable
8 exceptions. First and foremost, any accruals are excluded from the carrying costs
9 calculation. Secondly, to recognize that new additions to the regulatory asset are not present
10 for the entirety of that month, those additions will be treated as having been incurred evenly
11 throughout the month. This is accomplished by dividing those new additions in half to
12 represent the midpoint of the month. Lastly, carrying costs are also calculated on the net
13 Resiliency Plan capital investment balance at the end of each month. An illustrative
14 calculation of carrying costs in this manner can be seen in Exhibit JWG-R-03. This is the
15 same methodology for calculating carrying costs that has been employed by the Company
16 for deferral of carrying costs to a regulatory asset. For instance, the Company has
17 calculated carrying costs in this manner in its two most recent base rate proceedings in
18 Docket Nos. 49421 and 56211, as well as in its Temporary Emergency Electric Energy
19 Facilities ("TEEEF") Rider filings in Docket Nos. 53442 and 54830, among others.

20 **VI. CONCLUSION**

21 **Q. PLEASE SUMMARIZE YOUR DIRECT TESTIMONY.**

22 A. The Company has policies and procedures as it relates to the proper classification of capital
23 investment and expenses. The Company will follow and apply its policies and procedures

1 for expenditures related to the Resiliency Measures in the Company's Resiliency Plan.
2 Finally, the Company requests accounting language related to the deferral of distribution-
3 related costs to a regulatory asset, as permitted by PURA § 38.078(k).

4 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

5 A. Yes.

STATE OF TEXAS §
 §
COUNTY OF HARRIS §

AFFIDAVIT OF JEFF W. GARMON

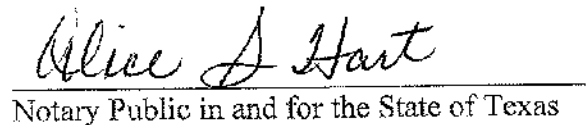
BEFORE ME, the undersigned authority, on this day personally appeared Jeff W. Garmon who having been placed under oath by me did depose as follows:

1. "My name is Jeff W. Garmon. I am of sound mind and capable of making this affidavit. The facts stated herein are true and correct based upon my personal knowledge.
2. I have prepared the foregoing Direct Testimony and the information contained in this document is true and correct to the best of my knowledge."

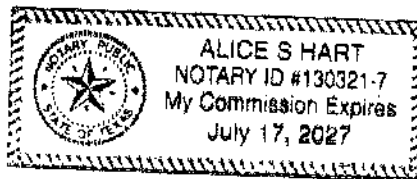
Further affiant sayeth not.


Jeff W. Garmon

SUBSCRIBED AND SWORN TO BEFORE ME on this 10th day of April,
2024.


Notary Public in and for the State of Texas

My commission expires: 7/17/2027



Accounting and Control Policies
Capitalization Policy**Policy Number: 21**

Policy	Company expenditures for items that have a useful life greater than one year or that extend the useful life of an existing asset by more than one year, that meet the minimum dollar thresholds, and that are not intended for sale in the ordinary course of business shall be capitalized as per the guidance outlined below. Capitalization of software is covered under the Company's Capitalization of Computer Software Policy and construction overhead is covered under the Company's Construction Overhead Policy.
Purpose	The purpose of this Capitalization Policy is to provide the criteria for expenditure capitalization and addition to the capital base. Adherence to this policy is designed to: <ul style="list-style-type: none">• Ensure the integrity of the financial data by defining consistent criteria for capitalization across all Business Units• Provide a consistent basis for determining when expenditures are recorded as capital assets• Provide a defined expectation for assets to be added to or removed from the capital base.
Capital Additions	Timing <p>Capital orders are considered to be field complete at the end of the capitalization period, i.e., when the asset is substantially complete and ready for intended use. At that time, the status of the order in SAP should be changed to field complete (FC) or a status equivalent to field complete, such as Contractor Complete (CTCC). Setting a capital order to a FC status will ensure interest or AFUDC, as applicable, is no longer capitalized and will allow the asset to be moved into Construction Complete Not Classified (CCNC) and begin depreciation.</p> <p>Subsequent to the Field Complete status, a capital order will updated to Technically Complete (TECO) status. The TECO status indicates that all capital materials associated with the order have been properly entered. Specifically, this means that all installed materials have been appropriately charged and all actual retirement components have been properly itemized on the work order.</p> <p>Property Accounting strives to unitize work orders within 60 days but no later than 120 days from the end of the calendar month in which an order is placed in TECO status. Sufficient information must be contained on the work order in order to facilitate unitization analysis. Additionally, work orders tied to Superior Projects are not unitized until all related work orders are placed in TECO status. When an order is unitized, Property Accounting will move the asset from CCNC into</p>

Accounting and Control Policies
Capitalization Policy**Policy Number: 21****Capital
Additions**
continued

Plant in Service (PIS). Depreciation will continue to be accrued monthly after the asset is moved to PIS.

Retirement Unit

The addition of a complete Retirement Unit (RU), a complete Substantial Minor Item (SMI), or a Betterment can increase the capital base of an Entity. In addition, certain assessment costs, excluding Pipeline Integrity, incurred in conjunction with major capital rehabilitation projects can be included in the capital base of the associated retirement unit. Only retirement of a complete RU can decrease the capital base. The treatment for each follows:

- When an identical or different RU replaces an existing RU, the old unit must always be retired and the new unit added to the capital base. A minimum threshold may also be required to capitalize a replacement of an RU of pipe, i.e., 50 feet of plastic pipe.
- The addition of an RU shall be capitalized.
- For Electric Companies and Local Distribution Companies (LDCs), RUs are defined in their respective retirement unit catalogs.
- For regulated entities, the removal cost associated with an RU shall be included as capital by charging accumulated depreciation at the Business Unit level for regulatory reporting purposes. For external reporting purposes, removal cost is reclassified to the regulatory liability for rate-regulated entities that apply the guidance of Accounting Standards Codification (ASC) 980, "Regulated Operations."¹

Substantial Minor Item

- The addition of an SMI to an existing RU is defined as a "substantial addition" and is capitalized.
- When an existing SMI is replaced, the entire replacement cost is charged to maintenance expense.
- An SMI is considered integral to the underlying retirement unit. Consequently, an SMI should never be removed without being replaced. Any costs associated with the removal or replacement of an SMI independent of the RU of which it is part would be considered maintenance expense.

¹ See the CenterPoint Energy, Inc. Accounting for Rate-Regulation Policy for information on ASC 980.

Accounting and Control Policies
Capitalization Policy**Policy Number: 21****Capital
Additions**
continued

- When an SMI is replaced and the conditions of a "Betterment" are met, the excess cost of the new SMI over the cost of "like replacement" is capitalized and the estimated "like replacement cost" is charged to maintenance expense. An estimate of the cost of making the change without a Betterment must be submitted with the work order request. All charges are to be made to the work order. The cost of making the change without Betterment will be transferred to maintenance expense by Property Accounting Services. The excess cost of the Betterment over the estimated cost at current prices of replacing without Betterment will remain in Construction Work In Progress until the work order is cleared to Plant In Service. The RU value will then be increased by the Betterment amount. No retirement from plant is made.
- When an SMI is modified and the conditions of a Betterment are met, the cost is capitalized. After the completion of this work, the work order will be cleared to Plant In Service and the RU value increased by the Betterment amount.

Less than Substantial Minor Items

Due to the relative cost of such items in relation to the cost of the RU of which they are a part, the addition of a Less than Substantial Minor Item (LSMI) is not a "substantial addition" and such costs are charged to maintenance expense.

The addition of an LSMI is normally charged to maintenance expense. The addition of an LSMI is charged to capital only when installing new facilities or when an LSMI is part of a related capital work order.

Betterment

The costs incurred that meet the definition of betterment are capitalized.

Accounting and Control Policies
Capitalization Policy

Policy Number: 21

Capital Additions
continued

Determining the treatment	The following table shall be used to determine the treatment of costs as capital or expense for a property item type.		
Property Item Type	Adding Property	Removing & Replacing Property	Removing Property – No Replacement
Retirement Unit	Capitalize	Capitalize	Capitalize
Substantial Minor Item of Property	Capitalize	Expense (Capitalize a Betterment)	Expense
Less than a Substantial Minor Item of Property	Expense (Capitalize if installing new facilities or part of a capital work order)	Expense (Capitalize if installing new facilities or part of a capital work order)	Expense

Assessment Costs

Generally, costs incurred to inspect, test and report on the condition of existing assets in order to determine the need for repairs or replacements are considered expense. Additionally, costs incurred as part of an ongoing inspection, testing or maintenance programs are also recorded as expense. Pipeline Integrity is an example of ongoing maintenance costs that should be expensed.

However, assessment costs incurred when the work is being performed in conjunction with a major rehabilitation program may be capitalized if certain conditions are met:

- 1) The assessment costs must be incurred subsequent to determining the need for a major rehabilitation program
- 2) The rehabilitation project involves a significant number of capital replacements and modification of facilities
- 3) The rehabilitation project must extend the overall service life of the asset beyond its original useful life and serviceability
- 4) The scope of the rehabilitation project must be clearly defined with a projected completion date
- 5) The rehabilitation project must be separately budgeted as a capital item

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Approval from the Director of Financial Accounting is required before any capital assessment costs are planned. Such approval should be given if there is a strong probability of regulatory recovery of capital assessment costs

**Retirement Unit Catalog/
Capitalization Guidelines** Property Accounting will maintain a property unit catalog (catalog) or capitalization guidelines for all Entities. Additions or changes to the catalog or guidelines must meet one of the following criteria for consideration.

- Relative dollar value to the current RU
- For SMI's, the frequency of replacement without removing the associated RU
- Change in technology
- Approval of a regulator

**Retirement –
Property Unit
Catalog
Example
(Electric)**

Catalog Section: Distribution Plant
Retirement-Property Unit Code: FCA 364
Fixed Capital Account (FCA): Poles, Towers & Fixtures
Expense Account(s): 583 and 593
Retirement-Property Unit: Poles, Wood, Length
Unit of Measure: Each

Description includes installed cost for treated wood poles, all classes, complete with framing, hardware and supports used singly or in multi-pole structures.

Minor Items Of Property:

- Crossarms*
- Anchor Rod
- Vertical Brackets
- Guy Wire
- Crossarm Braces
- Guy Hook
- Pins
- Guy Grip
- Cluster Racks*
- Secondary Rack
- Secondary Fork
- Miscellaneous Wood Pole Hardware
- Bolts, Nuts, Washers (BNW)
- Bus Support Structure
- Bracket
- Pole Bracing*
- Anchor

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*Substantial Minor Items – Addition of a substantial minor item shall be charged to Account 364.

Costs Chargeable To Maintenance:

- Repair and/or replacement of any part of the above RU without replacement of the entire RU shall be charged to expense.
- Addition of any minor item other than a substantial minor item shall be charged to expense.

**Retirement –
Property Unit
Catalog
Example**

Capital Projects
All Mains

(Gas)

- All new installation and replacement activities that involve adding or retiring pipe footage
- Relocation or offsets that involve adding or retiring pipe footage
- Abandonments or removal without a replacement main installation
- Reinstatement of previously abandoned pipe
- First-time installation of Weld Over Sleeves

Expense Items
All Mains

- Relocation that does not involve adding or retiring pipe footage
- Repairs to mains that do not require adding or retiring pipe footage
- Replacement or addition of clamps, valves, pipe coating, couplings, and supports, unless the work is done as part of a capital project Pipeline Integrity Assessment Costs

**General Plant
and
Miscellaneous
Equipment**

General Plant and Miscellaneous Equipment purchases, new or replacement, must be greater than \$500 and have a useful life of more than one year in order to be capitalized.

Exception: The initial outfitting and equipment of a new facility or vehicle (i.e. a new laboratory, machine shop, office building, service center, truck, etc.) shall be capitalized.

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Responsibilities This table lists the responsibilities for this Policy:

Position	Responsibility
Business Units	<ul style="list-style-type: none"> ▪ Capitalizing costs incurred using the capitalization criteria ▪ Updating the FC and TECO status of capital orders ▪ Controlling the use and security of movable and fixed assets in its possession ▪ Periodically reviewing the retirement unit catalog/capitalization guidelines and proposing catalog/capitalization guidelines changes to Property Accounting
Chief Accounting Officer and Controller	<ul style="list-style-type: none"> ▪ Administering this Policy
Director of Financial Accounting	<ul style="list-style-type: none"> ▪ Reviewing proposed capital assessment programs to vet the probability of regulatory recovery before costs are planned and incurred
Property Accounting	<ul style="list-style-type: none"> ▪ Maintaining the retirement unit catalogs/capitalization guidelines ▪ Providing assistance to the Business Unit with questions on capitalization ▪ Transfer of like replacement costs to maintenance expense as needed ▪ Reviewing and approving all proposed changes to the definition of an RU within the retirement unit catalog/capitalization guidelines

Definitions This table provides definitions of terms used in this policy:

Term	Definition
Betterment	<p>Cost incurred to replace an SMI with a nonequivalent SMI or an SMI modification without replacement <u>AND</u> the <u>primary aim</u> is to make the affected RU more efficient, of greater durability, or of a greater capacity <u>AND</u></p> <p style="padding-left: 40px;">(A) The total installed expenditure for the SMI is 20% or more of the total installed cost of the RU to which the SMI is related (provided such SMI expenditures exceeds \$25,000), or</p> <p style="padding-left: 40px;">(B) The SMI expenditure is \$250,000 or more.</p>
Business Unit	The functional operating area that maintains and reports operating financial information.

Continued on next page

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Term	Definition
Capital Assessment	Assessment costs incurred in conjunction with a major rehabilitation project intended to extend the life of an existing retirement unit beyond the original useful life.
Company	CenterPoint Energy, Inc.
Construction Complete Not Classified (CCNC)	General ledger and FERC account reflecting original cost of utility plant owns and used in utility operations, prior to determination of final retirement units.
Director of Financial Accounting	A Director in accounting who is responsible for oversight of one or more accounting managers who maintain the books of a Business Unit.
Entity	The Company or any corporation, partnership, trust, joint venture, firm, association, unincorporated organization, legal entity, or other enterprise in which the Company holds, directly or indirectly, a greater than 50% control.
Field Complete (FC)	FC applies to assets that are substantially complete and ready for intended use.
Financial Planning	The organizations within each Business Unit assigned the responsibility of planning and financial analysis
Less Than Substantial Minor Items of Property (LSMI)	Items that are parts of an RU or SMI.
Plant in Service (PIS)	General ledger and FERC account reflecting original cost of utility plant owned and used in utility operations and classified into distinct retirement units.
Property Accounting	The department responsible for the accounting and reporting of capitalized Company property, including assets under construction.
Retirement Unit (RU)	The basic units to which the capital assets of the Company are identified. An RU is the smallest item of property, which, on replacement or removal from service, is removed from the capital assets records. An RU may be an item (a 35 foot wood pole), a group of items (yard lighting system), or a unit of measure associated with bulk material (pounds of copper conductor or foot of pipe). Unit costs are associated with each RU (a 35 foot wood pole @ \$77.56 each installed or bare copper conductor @ \$2.1136 per pound installed). Each Electric or Gas RU has an identifying code and is listed in the corresponding Retirement Unit Catalog.

Continued on next page

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Term	Definition
Substantial Minor Items of Property (SMI)	Items that are part of an RU. Examples include the following: <ul style="list-style-type: none"> • Crossarm • Gas monitoring equipment on main power transformers • Switch interrupters
Superior Project	A large multi-phase construction project that is associated with multiple work orders.
Technically Complete (TECO)	TECO is an order status in SAP which should be updated by the business unit when appropriate. A TECO'd work order should include installed materials and any required retirement components.
Titles, Offices, and Officers	Those of the Company unless otherwise specified.

Authorization The Controller will make final determination on all exception items or items under special circumstances.

Compliance Employees must comply with this policy. Failure to comply with this Policy may result in disciplinary action up to and including termination.

Document History

Introduction This policy was implemented in separate components for the Business Units at various times.

Document history Below are at least the last three revisions of this document, including all revisions within the last three months.

Date	By	Description
12/2013	Manager, Accounting Research	Revised to address the capitalization of assessment costs per FERC (Docket No. AC09-27-000)
08/2014	Manager, Accounting Research	Removed weld-over sleeves from expensed items
12/2018	Accounting Integration Team	Modified policy to incorporate changes related to integration of legacy Vectren companies.
09/2019	Property Accounting	Removed designated minimum footages for mains from the excerpt from the Retirement Unit Catalog
07/2021	Property Accounting	Modified policy to incorporate changes related to enterprise integration.

Capitalization of Computer Software Policy

Purpose

The purpose of this document is to ensure the integrity of financial data through appropriate capitalization of computer software costs. ASC 350-40 *Internal Use Software* is the source document for all accounting guidance included in this policy.

Note: This policy does not apply to any internally developed software that will be sold or marketed. See Controller for guidance.

Policy

The lifecycle of an internal use software project is separated into three stages. The accounting treatment of expenditures is based upon the stage. Costs of computer software that is developed or obtained for internal use may be capitalized only when a project is in the Application Development Stage, and all the following criteria are met:

- The costs meet the minimal cost and capitalization requirements as outlined in this policy
- Portfolio Management has verified that the project is budgeted and approved as part of the five-year capital plan or has received approval from the Executive Committee.
- The project has a useful life greater than one year
- Generally, software license costs must be paid upfront to qualify for capitalization. Licenses paid out over time must be evaluated by Accounting Research to determine if the agreement contains a financing component.

Expensed costs: All costs related to software development and incurred during the Preliminary Project Planning Stage and the Post-Implementation/Operation Stage, are expensed, not capitalized, regardless as to the nature of the cost.

Exception to expensed costs: First year maintenance in the year of initial deployment of new software can be capitalized.

When capitalization ceases

Capitalization of costs cease when a computer software project is substantially complete and ready for use.

Substantially complete includes a "Hypercare" phase for a reasonable period of time after the project has been transferred to the production environment. For most projects, four weeks is considered a reasonable time for hypercare. For larger projects, a request for an extended hypercare period can be approved by Property Accounting.

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Impaired cost If it is no longer probable the computer software will be completed and placed in service, no further costs are to be capitalized, and the costs previously charged to capital are expensed immediately.

Compliance Employees must comply with this policy. Failure to comply with this Policy may result in disciplinary action up to and including termination.

Minimal cost requirement The below table lists the minimum cost requirements. **Important:** Each project must meet both the minimum dollar threshold and have a useful life of 1+ year(s) to be capitalized.

Source	Minimum Dollar Threshold
Purchased, including <ul style="list-style-type: none"> • Total licenses for LAN-based and enterprise software • Individual licenses for desktop software 	\$10,000 or greater
Internally developed software	\$100,000 or greater
Upgrades and enhancements to existing internally developed software resulting in additional specified functionality	
Implementation costs for cloud computing arrangements that are a service contract ¹	
Implementation costs for upgrades and enhancements to existing cloud computing arrangements that are service contracts, resulting in additional specified functionality ¹	

Project costs that are incurred, both internal and third party, during the Preliminary Project Stage and Post-Implementation/Operation Stage of the project are expensed, not capitalized.

Preliminary Project Stage The below table lists examples of activities that must be completed prior to entering the Application Development stage. Costs incurred in this stage must be expensed and not capitalized.

¹ Hosting fees for cloud computing arrangements and other SaaS fees continue to be expensed as incurred. The cloud arrangement term must be greater than 1 year to capitalize implementation costs.

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Description	Example Activities
Conceptual formation of alternatives	<ul style="list-style-type: none"> • Make strategic decisions to allocate resources between alternative projects at a given point in time. <i>Example:</i> Should programmers develop a new payroll system or direct their efforts toward correcting existing problems in an operating payroll system? • Determine the following for the computer software project it has proposed to undertake: <ul style="list-style-type: none"> ○ Performance requirements (what software should do) ○ System(s) requirements
Evaluation of alternatives	<ul style="list-style-type: none"> • Invite vendors to perform demonstrations of how their software will fulfill the project needs. • Explore other means for achieving specified performance requirements. <i>Examples:</i> Should the Company make or buy the software? Should the software run on a mainframe or a client server system?
Determination of existence of needed technology	Evaluate and perform activities to determine the performance and system requirements exist, as necessary.
Final selection from alternatives	<ul style="list-style-type: none"> • Select vendors if software is to be purchased. • Select consultants to assist in the development or installation of the software.

Application Development Stage

Costs incurred during the Application Development Stage and related to the purchase, design, development, configuration or testing of computer software may be capitalized. The project does not enter the Application Development Stage, and costs may not be capitalized, until all activities associated with the Preliminary Project Stage have been completed and documented on the Application Development Stage – Approval Form, which is retained by the Technology Strategic Planning and Portfolio Management Office. A form is required for all capitalized software development, regardless of whether the software was purchased with hardware².

² Purchases of hardware only do not require an Application Development Stage - Approval Form.

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Business Units/Departments should engage with IT when the need for a software solution has been identified. Once a project has been fully vetted and the Preliminary Project Stage is complete, IT will assist the Business Unit in the preparation and submission of the Application Development Stage – Approval Form.

This table lists examples of capitalizable activities when incurred during the Application Development Stage:

Description	Example Activities
External direct costs of materials and services consumed in developing or obtaining internal-use computer software	<ul style="list-style-type: none"> • Fees paid to third parties for services provided to develop the computer software during the Application Development Stage • Costs incurred to obtain computer software or hardware from third parties
Payroll and payroll-related costs for employees who are directly associated with and devoted time to the internal-use computer software project, to the extent of the time is spent directly on the project	<ul style="list-style-type: none"> • Hours spent by Information Technology employees on the development of the project • Core Team members, other than Information Technology employees, who have been substantially reassigned from their normal duties to spend time on the development of the project (for a duration of approximately 80 hours or more) • Travel expenses incurred by employees in their duties associated with developing software <p>Important: Hours spent by any employee related to general and administrative tasks, such as scheduling projects, hiring personnel, meeting with vendors or performing other administrative functions should not be capitalized.</p>
Training materials and other technical documentation	<ul style="list-style-type: none"> • Preparation of user manuals, computer-based training applications and documentation that relates to the coding or design.

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Allowance for Funds Used During Construction (AFUDC)	The project should receive an allocation for AFUDC or Capitalized Interest. Important: It should not receive overhead allocations, general and administrative costs, maintenance costs or training costs.
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Post-Implementation/ Operation Stage

This table lists activities that must be expensed and not capitalized:

Support of the Go-Live	<ul style="list-style-type: none"> • Convert and/or clean up data. • Train end users. • Maintain application after a reasonable Hypercare time period. For most projects, four weeks is considered a reasonable time for hypercare. For larger projects, a request for an extended hypercare period can be approved by Property Accounting.
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Allocation of third-party costs

Payments to third parties, incurred during the Application Development Stage, that contain elements of both capital and expense should allocate these costs appropriately to capital or expense based on the standalone selling price of the elements in the contract.

Alternative development methods

Technology projects are not always developed utilizing discreet, chronological stages. Some projects will be completed using an agile development method. Instead of a large-scale deliverable at the end of the project, smaller, fully functional product components are developed in sprints, which are typically measured in weeks.

When utilizing the agile development method, it is still required to distinguish the appropriate stage associated with each activity. Costs associated with activities considered preliminary-project and post-implementation stages are required to be expensed. Only costs associated with application development activities can be capitalized.

The established capitalization threshold is applicable to projects developed using the agile method. In aggregate, the entire project should meet the minimum dollar threshold for capitalization (\$100,000). Individual components of functionality comprised of one

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or multiple sprints may be less than \$100,000. As individual components are deployed to production, the costs will be unitized to plant-in-service. Each component will have a separate amortization schedule.

Responsibilities The table below contains position responsibilities:

Position	Responsibility
Chief Accounting Officer and Controller	<ul style="list-style-type: none"> • Administering this Policy • Reviewing exceptions to this policy that fall under special circumstances <i>Example:</i> GAAP requirements
Business Units/Departments	<ul style="list-style-type: none"> • Engaging IT for any identified projects for software purchases, developments, or enhancements. • Providing assistance to IT in the preparation of the Application Development Stage – Approval Form
Accounting Research	<ul style="list-style-type: none"> • Assisting Property Accounting regarding the proper accounting treatment of software purchases that contain a financing component.
Property Accounting	<ul style="list-style-type: none"> • Providing assistance to IT and the Business Units/Departments to determine the proper treatment of computer software expenditures • Maintaining the Application Development Stage - Approval Form template • Approving exceptions to “Hypercare” guidance
Information Technology (IT)	<ul style="list-style-type: none"> • Advising the Business Units/Departments on proposed software projects • Providing adequate documentation to Property Accounting to support: <ul style="list-style-type: none"> ○ the stage of each computer software project and ○ the nature of each capitalizable costs coded to a capital software project during the Application Development Stage ○ extensions to “hypercare” guidance of four weeks • Discussing any financing arrangements or terms with Property Accounting and Research Accounting <u>prior</u> to executing agreements
Technology Strategic Planning & Portfolio Management	<ul style="list-style-type: none"> • Approving and retaining documentation to support the Application Development Stage Approval Form for each project • Verifying that each project has been properly budgeted and approved

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Document History Policy was implemented in January 2003

Below are at least the last three revisions of this document, including all revisions within the last three months.

Date	By	Description
10/2014	Manager, Accounting Research	Policy was revised to more clearly depict the three stages of computer software development and capitalization criteria for each stage.
12/2018	Accounting Integration Team	Modified policy to incorporate changes related to integration of legacy Vectren companies.
03/2020	Property Accounting	Minor updates, including additional references for updated guidance on cloud computing, ASU 2018-15.
07/2021	Property Accounting	Modified policy to incorporate change in technology department name. Minor formatting changes.

This content is from the eCFR and is authoritative but unofficial.

 Displaying title 18, up to date as of 3/15/2024. Title 18 was last amended 3/08/2024. 

 There are Federal Register documents that will modify this content. See the 'Cross Reference' blocks in the text of this content for more information.

Title 18 —Conservation of Power and Water Resources
Chapter I —Federal Energy Regulatory Commission, Department of Energy
Subchapter C —Accounts, Federal Power Act

PART 101—UNIFORM SYSTEM OF ACCOUNTS PRESCRIBED FOR PUBLIC UTILITIES AND LICENSEES SUBJECT TO THE PROVISIONS OF THE FEDERAL POWER ACT

CROSS REFERENCE

[Link to an amendment published at 88 FR 69314, Oct. 5, 2023.](#)

CROSS REFERENCE

[Link to an amendment published at 88 FR 69315, Oct. 5, 2023.](#)

CROSS REFERENCE

[Link to an amendment published at 88 FR 69316, Oct. 5, 2023.](#)

CROSS REFERENCE

[Link to an amendment published at 88 FR 69317, Oct. 5, 2023.](#)

CROSS REFERENCE

[Link to an amendment published at 88 FR 69325, Oct. 5, 2023.](#)

CROSS REFERENCE

[Link to an amendment published at 88 FR 69326, Oct. 5, 2023.](#)

Authority: 16 U.S.C. 791a–825r, 2601–2645; 31 U.S.C. 9701; 42 U.S.C. 7101–7352, 7651–7651o.

Source: Order 218, 25 FR 5014, June 7, 1960, unless otherwise noted.

EDITORIAL NOTE

Editorial Note: For FEDERAL REGISTER citations affecting part 101, see the List of CFR Sections Affected, which appears in the Finding Aids section of the printed volume and at www.govinfo.gov.

Note: Order 141, 12 FR 8503, Dec. 19, 1947, provides in part as follows:
Prescribing a system of accounts for public utilities and licensees under the Federal Power Act. The Federal Power Commission acting pursuant to authority granted by the Federal Power Act, particularly sections 301(a), 304(a), and 309, and paragraph (13) of section 3, section 4(b) thereof, and finding such action necessary and appropriate

for carrying out the provisions of said act, hereby adopts the accompanying system of accounts entitled "Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act," and the rules and regulations contained therein; and *it is hereby ordered:*

(a) That said system of accounts and said rules and regulations contained therein be and the same are hereby prescribed and promulgated as the system of accounts and rules and regulations of the Commission to be kept and observed by public utilities subject to the jurisdiction of the Commission and by licensees holding licenses issued by the Commission, to the extent and in the manner set forth therein;

(b) That said system of accounts and rules and regulations therein contained shall, as to all public utilities now subject to the jurisdiction of the Commission and as to all present licensees, become effective on January 1, 1937, and as to public utilities and licensees which may hereafter become subject to the jurisdiction of the Commission, they shall become effective as of the date when such public utility becomes subject to the jurisdiction of the Commission or on the effective date of the license;

(c) That a copy of said system of accounts and rules and regulation contained therein be forthwith served upon each public utility subject to the jurisdiction of the Commission, and each licensee or permittee holding a license or permit from the Commission.

This system of accounts supersedes the system of accounts prescribed for licensees under the Federal Water Power Act; and Order No. 13, entered November 20, 1922, prescribing said system of accounts, was rescinded effective January 1, 1937.

Applicability of system of accounts. This system of accounts is applicable in principle to all licensees subject to the Commission's accounting requirements under the Federal Power Act, and to all public utilities subject to the provisions of the Federal Power Act. The Commission reserves the right, however, under the provisions of section 301(a) of the Federal Power Act to classify such licensees and public utilities and to prescribe a system of classification of accounts to be kept by and which will be convenient for and meet the requirements of each class. This system of accounts is applicable to public utilities, as defined in this part, and to licensees engaged in the generation and sale of electric energy for ultimate distribution to the public.

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

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

Cross References:

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

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

When used in this system of accounts:

1. *Accounts* means the accounts prescribed in this system of accounts.
2. *Actually issued*, as applied to securities issued or assumed by the utility, means those which have been sold to bona fide purchasers for a valuable consideration, those issued as dividends on stock, and those which have been issued in accordance with contractual requirements direct to trustees of sinking funds.
3. *Actually outstanding*, as applied to securities issued or assumed by the utility, means those which have been actually issued and are neither retired nor held by or for the utility; provided, however, that securities held by trustees shall be considered as actually outstanding.
4. *Amortization* means the gradual extinguishment of an amount in an account by distributing such amount over a fixed period, over the life of the asset or liability to which it applies, or over the period during which it is anticipated the benefit will be realized.

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

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

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

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

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

A. For each retirement unit:

- (1) The name or description of the unit, or both;
- (2) The location of the unit;
- (3) The date the unit was placed in service;
- (4) The cost of the unit as set forth in Plant Instructions 2 and 3 of this part; and
- (5) The plant control account to which the cost of the unit is charged; and

B. For each category of mass property:

- (1) A general description of the property and quantity;
- (2) The quantity placed in service by vintage year;
- (3) The average cost as set forth in Plant Instructions 2 and 3 of this part; and
- (4) The plant control account to which the costs are charged.

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

10. *Cost of removal* means the cost of demolishing, dismantling, tearing down or otherwise removing electric plant, including the cost of transportation and handling incidental thereto. It does not include the cost of removal activities associated with asset retirement obligations that are capitalized as part of the tangible long-lived assets that give rise to the obligation. (See General Instruction 25).

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

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

13. *Discount*, as applied to the securities issued or assumed by the utility, means the excess of the par (stated value of no-par stocks) or face value of the securities plus interest or dividends accrued at the date of the sale over the cash value of the consideration received from their sale.
14. *Investment advances* means advances, represented by notes or by book accounts only, with respect to which it is mutually agreed or intended between the creditor and debtor that they shall be settled by the issuance of securities or shall not be subject to current settlement.
15. *Lease, capital* means a lease of property used in utility or nonutility operations, which meets one or more of the criteria stated in General Instruction 19.
16. *Lease, operating* means a lease of property used in utility or nonutility operations, which does not meet any of the criteria stated in General Instruction 19.
17. *Licensee* means any person, or State, licensed under the provisions of the Federal Power Act and subject to the Commission's accounting requirements under the terms of the license.
18. *Minor items of property* means the associated parts or items of which retirement units are composed.
19. *Net salvage value* means the salvage value of property retired less the cost of removal.
20. *Nominally issued*, as applied to securities issued or assumed by the utility, means those which have been signed, certified, or otherwise executed, and placed with the proper officer for sale and delivery, or pledged, or otherwise placed in some special fund of the utility, but which have not been sold, or issued direct to trustees of sinking funds in accordance with contractual requirements.
21. *Nominally outstanding*, as applied to securities issued or assumed by the utility, means those which, after being actually issued, have been reacquired by or for the utility under circumstances which require them to be considered as held alive and not retired, provided, however, that securities held by trustees shall be considered as actually outstanding.
22. *Nonproject property* means the electric plant of a licensee which is not a part of the project property subject to a license issued by the Commission.
23. *Original cost*, as applied to electric plant, means the cost of such property to the person first devoting it to public service.
24. *Person* means an individual, a corporation, a partnership, an association, a joint stock company, a business trust, or any organized group of persons, whether incorporated or not, or any receiver or trustee.
25. *Premium*, as applied to securities issued or assumed by the utility, means the excess of the cash value of the consideration received from their sale over the sum of their par (stated value of no-par stocks) or face value and interest or dividends accrued at the date of sale.
26. *Project* means complete unit of improvement or development, consisting of a power house, all water conduits, all dams and appurtenant works and structures (including navigation structures) which are a part of said unit, and all storage, diverting, or forebay reservoirs directly connected therewith, the primary line or lines transmitting power therefrom to the point of junction with the distribution system or with the interconnected primary transmission system, all miscellaneous structures used and useful in connection with said unit or any part thereof, and all water rights, rights of way, ditches, dams, reservoirs, lands, or interest in lands the use and occupancy of which are necessary or appropriate in the maintenance and operation of such unit.
27. *Project property* means the property described in and subject to a license issued by the Commission.
28. *Property retired*, as applied to electric plant, means property which has been removed, sold, abandoned, destroyed, or which for any cause has been withdrawn from service.
29. *Public utility* means any person who owns or operates facilities subject to the jurisdiction of the Commission under the Federal Power Act. (See section 201(e) of said act.)
30. *Regional market* means an organized energy market operated by a public utility, whether directly or through a contractual relationship with another entity.

31. *Regulatory Assets and Liabilities* are assets and liabilities that result from rate actions of regulatory agencies. Regulatory assets and liabilities arise from specific revenues, expenses, gains, or losses that would have been included in net income determination in one period under the general requirements of the Uniform System of Accounts but for it being probable:

A. that such items will be included in a different period(s) for purposes of developing the rates the utility is authorized to charge for its utility services; or

B. in the case of regulatory liabilities, that refunds to customers, not provided for in other accounts, will be required.

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

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

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

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

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

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

37. *Service value* means the difference between original cost and net salvage value of electric plant.

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

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

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

General Instructions

1. Classification of utilities.

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

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

- (a) One million megawatt-hours of total sales;
- (b) 100 megawatt-hours of sales for resale;
- (c) 500 megawatt-hours of power exchanges delivered; or
- (d) 500 megawatt-hours of wheeling for others (deliveries plus losses).

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

(3) *Nonoperating*. Utilities and licensees formerly designated as *Major* or *Nonmajor* that have ceased operation but continue to collect amounts pursuant to a Commission-accepted tariff or rate schedule, or a Commission order.

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

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

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

2. *Records*.

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

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

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

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

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

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

3. *Numbering System*.

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

- 100–199 Assets and other debits.
- 200–299 Liabilities and other credits.
- 300–399 Plant accounts.

400–432, 434–435 Income accounts.

433, 436–439 Retained earnings accounts.

440–459 Revenue accounts.

500–599 Production, transmission and distribution expenses.

900–949 Customer accounts, customer service and informational, sales, and general and administrative expenses.

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

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

4. *Accounting Period.*

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

5. *Submittal of Questions.*

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

6. *Item Lists.*

Lists of *items* appearing in the texts of the accounts or elsewhere herein are for the purpose of more clearly indicating the application of the prescribed accounting. The lists are intended to be representative, but not exhaustive. The appearance of an item in a list warrants the inclusion of the item in the account mentioned only when the text of the account also indicates inclusion inasmuch as the same item frequently appears in more than one list. The proper entry in each instance must be determined by the texts of the accounts.

7. *Extraordinary Items.*

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

7.1 *Prior period items.*

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

(1) Correction of an error in the financial statements of a prior year.

(2) Adjustments that result from realization of income tax benefits of pre-acquisition operating loss carryforwards of purchased subsidiaries.

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

8. Unaudited Items (Major Utility).

Whenever a financial statement is required by the Commission, if it is known that a transaction has occurred which affects the accounts but the amount involved in the transaction and its effect upon the accounts cannot be determined with absolute accuracy, the amount shall be estimated and such estimated amount included in the proper accounts. The utility is not required to anticipate minor items which would not appreciably affect the accounts.

9. Distribution of Pay and Expenses of Employees.

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

10. Payroll Distribution.

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

11. Accounting to be on Accrual Basis.

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

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

12. Records for Each Plant (Major Utility).

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

13. Accounting for Other Departments.

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

14. Transactions With Associated Companies (Major Utility).

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

15. Contingent Assets and Liabilities (Major Utility).

Contingent assets represent a possible source of value to the utility contingent upon the fulfillment of conditions regarded as uncertain. Contingent liabilities include items which may under certain conditions become obligations of the utility but which are neither direct nor assumed liabilities at the date of the balance sheet. The utility shall be prepared to give a complete statement of

significant contingent assets and liabilities (including cumulative dividends on preference stock) in its annual report and at such other times as may be requested by the Commission.

16. *Separate Accounts or Records for Each Licensed Project.*

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

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

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

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

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

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

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

A. *Premium, discount and expense.* A separate premium, discount and expense account shall be maintained for each class and series of long-term debt (including receivers' certificates) issued or assumed by the utility. The premium will be recorded in account 225, Unamortized Premium on Long-Term Debt, the discount will be recorded in account 226, Unamortized Discount on Long-Term Debt—Debit, and the expense of issuance shall be recorded in account 181, Unamortized Debt Expense.

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

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

C. *Reacquisition, with refunding.* When the redemption of one issue or series of bonds or other long-term obligations is financed by another issue or series before the maturity date of the first issue, the difference between the amount paid upon refunding and the face value; plus any unamortized premium less related debt expense or less any unamortized discount and related debt expense, applicable to the debt refunded, shall be included in account 189, Unamortized Loss on Reacquired Debt, or account 257, Unamortized Gain on Reacquired Debt, as appropriate. The utility may elect to account for such amounts as follows:

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

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

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

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

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

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

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

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

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

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

J. *Alternate method.* Where a regulatory authority or a group of regulatory authorities having prime rate jurisdiction over the utility specifically disallows the rate principle of amortizing gains or losses on reacquisition of long-term debt without refunding, and does not apply the gain or loss to reduce interest charges in computing the allowed rate of return for rate purposes, then the following alternate method may be used to account for gains or losses relating to reacquisition of long-term debt, with or without refunding.

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

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

18. *Comprehensive Interperiod In- come Tax Allocation.*

A. Where there are timing differences between the periods in which transactions affect taxable income and the periods in which they enter into the determination of pretax accounting income, the income tax effects of such transactions are to be recognized in the periods in which the differences between book accounting income and taxable income arise and in the periods in which the differences reverse using the deferred tax method. In general, comprehensive interperiod tax allocation should be followed whenever transactions enter into the determination of pretax accounting income for the period even though some transactions may affect the determination of taxes payable in a different period, as further qualified below.

B. Utilities are not required to utilize comprehensive interperiod income tax allocation until the deferred income taxes are included as an expense in the rate level by the regulatory authority having rate jurisdiction over the utility. Where comprehensive interperiod tax allocation accounting is not practiced the utility shall include as a note to each financial statement, prepared for public use, a footnote

explanation setting forth the utility's accounting policies with respect to interperiod tax allocation and describing the treatment for ratemaking purposes of the tax timing differences by regulatory authorities having rate jurisdiction.

C. Should the utility be subject to more than one agency having rate jurisdiction, its accounts shall appropriately reflect the ratemaking treatment (deferral or flow through) of each jurisdiction.

D. Once comprehensive interperiod tax allocation has been initiated either in whole or in part it shall be practiced on a consistent basis and shall not be changed or discontinued without prior Commission approval.

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

19. *Criteria for classifying leases.*

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

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

(2) The lease contains a bargain purchase option.

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

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

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

20. *Accounting for leases.*

A. All leases shall be classified as either capital or operating leases. The accounting for capitalized leases is effective January 1, 1984, except for the retroactive classification of certain leases which, in accordance with FASB No. 71, will not be required to be capitalized until after a three year transition period. For the purpose of reporting to the FERC, the transition period shall be deemed to end December 31, 1986.

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

C. The utility, as a lessee, shall recognize an asset retirement obligation (See General Instruction 25) arising from the plant under a capital lease unless the obligation is recorded as an asset and liability under a capital lease. The utility shall record the asset retirement cost by debiting account 101.1, Property under capital leases, or account 120.6, Nuclear fuel under capital leases, or account 121, Nonutility property, as appropriate, and crediting the liability for the asset retirement obligation in account 230, Asset retirement obligations. Asset retirement costs recorded in account 101.1, account 120.6, or account 121 shall be amortized by charging rent expense (See Operating Expense Instruction 3), or account 518, Nuclear fuel expense (Major only), or account 421, Miscellaneous nonoperating income, as appropriate, and crediting a separate subaccount of the account in which the asset retirement costs are recorded. Charges for the periodic accretion of the liability in account 230, Asset retirement obligations, shall be recorded by a charge to account 411.10, Accretion expense, for electric utility plant, and account 421, Miscellaneous nonoperating income, for nonutility plant and a credit to account 230, Asset retirement obligations.

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

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

21. Allowances.

A. Title IV of the Clean Air Act Amendments of 1990, Public Law No. 101-549, 104 Stat. 2399, 2584, provides for the issuance of allowances as a means to limit the emissions of certain airborne pollutants by various entities, including public utilities. Public utilities owning allowances, other than those acquired for speculative purposes, shall account for such allowances at cost in Account 158.1, Allowance Inventory, or Account 158.2, Allowances Withheld, as appropriate. Allowances acquired for speculative purposes and identified as such in contemporaneous records at the time of purchase shall be accounted for in Account 124, Other Investments.

B. When purchased allowances become eligible for use in different years, and the allocation of the purchase cost cannot be determined by fair value, the purchase cost allocated to allowances of each vintage shall be determined through use of a present-value based measurement. The interest rate used in the present-value measurement shall be the utility's incremental borrowing rate, in the month in which the allowances are acquired, for a loan with a term similar to the period that it will hold the allowances and in an amount equal to the purchase price.

C. The underlying records supporting Account 158.1 and Account 158.2 shall be maintained in sufficient detail so as to provide the number of allowances and the related cost by vintage year.

D. Issuances from inventory from inventory included in Account 158.1 and Account 158.2 shall be accounted for on a vintage basis using a monthly weighted-average method of cost determination. The cost of eligible allowances not used in the current year shall be transferred to the vintage for the immediately following year.

E. Account 158.1 shall be credited and Account 509, Allowances, debited so that the cost of the allowances to be remitted for the year is charged to expense monthly based on each month's emissions. This may, in certain circumstances, require allocation of the cost of an allowance between months on a fractional basis.

F. In any period in which actual emissions exceed the amount allowable based on eligible allowances owned, the utility shall estimate the cost to acquire the additional allowances needed and charge Account 158.1 with the estimated cost. This estimated cost of future allowance acquisitions shall be credited to Account 158.1 and charged to Account 509 in the same accounting period as the related charge to Account 158.1. Should the actual cost of these allowances differ from the estimated cost, the differences shall be recognized in the then-current period's inventory issuance cost.

G. Any penalties assessed by the Environmental Protection Agency for the emission of excess pollutants shall be charged to Account 426.3, Penalties.

H. Gains on dispositions of allowances, other than allowances held for speculative purposes, shall be accounted for as follows. First, if there is uncertainty as to the regulatory treatment, the gain shall be deferred in Account 254, Other Regulatory Liabilities, pending resolution of the uncertainty. Second, if there is certainty as to the existence of a regulatory liability, the gain will be credited to Account 254, with subsequent recognition in income when reductions in charges to customers occur or the liability is otherwise satisfied. Third, all other gains will be credited to Account 411.8, Gains from Disposition of Allowances. Losses on disposition of allowances, other than allowances held for speculative purposes, shall be accounted for as follows. Losses that qualify as regulatory assets shall be charged directly to Account 182.3, Other Regulatory Assets. All other losses shall be charged to Account 411.9,

Losses from Disposition of Allowances. (See Definition No. 30.) Gains or losses on disposition of allowances held for speculative purposes shall be recognized in Account 421, Miscellaneous Nonoperating Income, or Account 426.5, Other Deductions, as appropriate.

22. Depreciation Accounting.

A. *Method.* Utilities must use a method of depreciation that allocates in a systematic and rational manner the service value of depreciable property over the service life of the property.

B. *Service lives.* Estimated useful service lives of depreciable property must be supported by engineering, economic, or other depreciation studies.

C. *Rate.* Utilities must use percentage rates of depreciation that are based on a method of depreciation that allocates in a systematic and rational manner the service value of depreciable property to the service life of the property. Where composite depreciation rates are used, they should be based on the weighted average estimated useful service lives of the depreciable property comprising the composite group.

23. Accounting for other comprehensive income.

A. Utilities shall record items of other comprehensive income in account 219, Accumulated other comprehensive income. Amounts included in this account shall be maintained by each category of other comprehensive income. Examples of categories of other comprehensive income include, foreign currency items, minimum pension liability adjustments, unrealized gains and losses on available-for-sale type securities and cash flow hedge amounts. Supporting records shall be maintained for account 219 so that the company can readily identify the cumulative amount of other comprehensive income for each item included in this account.

B. When an item of other comprehensive income enters into the determination of net income in the current or subsequent periods, a reclassification adjustment shall be recorded in account 219 to avoid double counting of that amount.

C. When it is probable that an item of other comprehensive income will be included in the development of cost-of-service rates in subsequent periods, that amount of unrealized losses or gains will be recorded in Accounts 182.3 or 254 as appropriate.

24. Accounting for derivative instruments and hedging activities.

A. Utilities shall recognize derivative instruments as either assets or liabilities in the financial statements and measure those instruments at fair value, except those falling within recognized exceptions. Normal purchases or sales are contracts that provide for the purchase or sale of goods that will be delivered in quantities expected to be used or sold by the utility over a reasonable period in the normal course of business. A derivative instrument is a financial instrument or other contract with all of the following characteristics:

(1) It has one or more underlyings and a notional amount or payment provision. Those terms determine the amount of the settlement or settlements, and, in some cases, whether or not a settlement is required.

(2) It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

(3) Its terms require or permit net settlement, can readily be settled net by a means outside the contract, or provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement.

B. The accounting for the changes in the fair value of derivative instruments depends upon its intended use and designation. Changes in the fair value of derivative instruments not designated as fair value or cash flow hedges shall be recorded in account 175, derivative instrument assets, or account 244, derivative instrument liabilities, as appropriate, with the gains recorded in account 421, miscellaneous nonoperating income, and losses recorded in account 426.5, other deductions.

C. A derivative instrument may be specifically designated as a fair value or cash flow hedge. A hedge is used to manage risk to price, interest rates, or foreign currency transactions. A company shall maintain documentation of the hedge relationship at the inception of the hedge that details the risk management objective and strategy for undertaking the hedge, the nature of the risk being hedged, and how hedge effectiveness will be determined.

D. If the utility designates the derivative instrument as a fair value hedge against exposure to changes in the fair value of a recognized asset, liability, or a firm commitment, it shall record the change in fair value of the derivative instrument to account 176, derivative instrument assets-hedges, or account 245, derivative instrument liabilities-hedges, as appropriate, with a corresponding adjustment

to the subaccount of the item being hedged. The ineffective portion of the hedge transaction shall be reflected in the same income or expense account that will be used when the hedged item enters into the determination of net income. In the case of a fair value hedge of a firm commitment a new asset or liability is created. As a result of the hedge relationship, the new asset or liability will become part of the carrying amount of the item being hedged.

E. If the utility designates the derivative instrument as a cash flow hedge against exposure to variable cash flows of a probable forecasted transaction, it shall record changes in the fair value of the derivative instrument in account 176, derivative instrument assets-hedges, or account 245, derivative instrument liabilities-hedges, as appropriate, with a corresponding amount in account 219, accumulated other comprehensive income, for the effective portion of the hedge. The ineffective portion of the hedge transaction shall be reflected in the same income or expense account that will be used when the hedged item enters into the determination of net income. Amounts recorded in other comprehensive income shall be reclassified into earnings in the same period or periods that the hedged forecasted item enters into the determination of net income.

25. Accounting for asset retirement obligations.

A. An *asset retirement obligation* represents a liability for the legal obligation associated with the retirement of a tangible long-lived asset that a company is required to settle as a result of an existing or enacted law, statute, ordinance, or written or oral contract or by legal construction of a contract under the doctrine of promissory estoppel. An *asset retirement cost* represents the amount capitalized when the liability is recognized for the long-lived asset that gives rise to the legal obligation. The amount recognized for the liability and an associated asset retirement cost shall be stated at the fair value of the asset retirement obligation in the period in which the obligation is incurred.

B. The utility shall initially record a liability for an asset retirement obligation in account 230, Asset retirement obligations, and charge the associated asset retirement costs to electric utility plant (including accounts 101.1 and 120.6), and nonutility plant, as appropriate, related to the plant that gives rise to the legal obligation. The asset retirement cost shall be depreciated over the useful life of the related asset that gives rise to the obligations. For periods subsequent to the initial recording of the asset retirement obligation, a utility shall recognize the period to period changes of the asset retirement obligation that result from the passage of time due to the accretion of the liability and any subsequent measurement changes to the initial liability for the legal obligation recorded in account 230, Asset retirement obligations, as follows:

(1) The utility shall record the accretion of the liability by debiting account 411.10, Accretion expense, for electric utility plant, account 413, Expenses of electric plant leased to others, for electric plant leased to others, and account 421, Miscellaneous nonoperating income, for nonutility plant and crediting account 230, Asset retirement obligations; and

(2) The utility shall recognize any subsequent measurement changes of the liability initially recorded in account 230, Asset retirement obligations, for each specific asset retirement obligation as an adjustment of that liability in account 230 with the corresponding adjustment to electric utility plant, electric plant leased to others, and nonutility plant, as appropriate. The utility shall on a timely basis monitor any measurement changes of the asset retirement obligations.

C. Gains or losses resulting from the settlement of asset retirement obligations associated with utility plant resulting from the difference between the amount of the liability for the asset retirement obligation included in account 230, Asset retirement obligations, and the actual amount paid to settle the obligation shall be accounted for as follows:

(1) Gains shall be credited to account 411.6, Gains from disposition of utility plant, and;

(2) Losses shall be charged to account 411.7, Losses from disposition of utility plant.

D. Gains or losses on the settlement of asset retirement obligations associated with nonutility plant resulting from the difference between the amount of the liability for the asset retirement obligation in account 230, Asset retirement obligations, and the amount paid to settle the obligation, shall be accounted for as follows:

(1) Gains shall be credited to account 421, Miscellaneous nonoperating income, and;

(2) Losses shall be charged to account 426.5, Other deductions.

E. Separate subsidiary records shall be maintained for each asset retirement obligation showing the initial liability and associated asset retirement cost, any incremental amounts of the liability incurred in subsequent reporting periods for additional layers of the original liability and related asset retirement cost, the accretion of the liability, the subsequent measurement changes to the asset retirement obligation, the depreciation and amortization of the asset retirement costs and related accumulated depreciation, and the settlement date and actual amount paid to settle the obligation. For purposes of analyses a utility shall maintain supporting

documentation so as to be able to furnish accurately and expeditiously with respect to each asset retirement obligation the full details of the identity and nature of the legal obligation, the year incurred, the identity of the plant giving rise to the obligation, the full particulars relating to each component and supporting computations related to the measurement of the asset retirement obligation.

Electric Plant Instructions

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

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

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

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

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

2. Electric Plant To Be Recorded at Cost.

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

B. When the consideration given for property is other than cash, the value of such consideration shall be determined on a cash basis (see, however, definition 9). In the entry recording such transition, the actual consideration shall be described with sufficient particularity to identify it. The utility shall be prepared to furnish the Commission the particulars of its determination of the cash value of the consideration if other than cash.

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

D. The electric plant accounts shall not include the cost or other value of electric plant contributed to the company. Contributions in the form of money or its equivalent toward the construction of electric plant shall be credited to accounts charged with the cost of such construction. Plant constructed from contributions of cash or its equivalent shall be shown as a reduction to gross plant constructed when assembling cost data in work orders for posting to plant ledgers of accounts. The accumulated gross costs of plant accumulated in the work order shall be recorded as a debit in the plant ledger of accounts along with the related amount of contributions concurrently be recorded as a credit.

3. Components of construction cost.

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

(1) *Contract work* includes amounts paid for work performed under contract by other companies, firms, or individuals, costs incident to the award of such contracts, and the inspection of such work.

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

(3) *Materials and supplies* includes the purchase price at the point of free delivery plus customs duties, excise taxes, the cost of inspection, loading and transportation, the related stores expenses, and the cost of fabricated materials from the utility's shop. In determining the cost of materials and supplies used for construction, proper allowance shall be made for unused materials and supplies, for materials recovered from temporary structures used in performing the work involved, and for discounts allowed and realized in the purchase of materials and supplies.

Note: The cost of individual items of equipment of small value (for example, \$500 or less) or of short life, including small portable tools and implements, shall not be charged to utility plant accounts unless the correctness of the accounting therefor is verified by current inventories. The cost shall be charged to the appropriate operating expense or clearing accounts, according to the use of such items, or, if such items are consumed directly in construction work, the cost shall be included as part of the cost of the construction

(4) *Transportation* includes the cost of transporting employees, materials and supplies, tools, purchased equipment, and other work equipment (when not under own power) to and from points of construction. It includes amounts paid to others as well as the cost of operating the utility's own transportation equipment. (See item 5 following.)

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

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

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

(8) *Injuries and damages* includes expenditures or losses in connection with construction work on account of injuries to persons and damages to the property of others; also the cost of investigation of and defense against actions for such injuries and damages. Insurance recovered or recoverable on account of compensation paid for injuries to persons incident to construction shall be credited to the account or accounts to which such compensation is charged Insurance recovered or recoverable on account of property damages incident to construction shall be credited to the account or accounts charged with the cost of the damages.

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

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

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

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

(13) *Engineering services* includes amounts paid to other companies, firms, or individuals engaged by the utility to plan, design, prepare estimates, supervise, inspect, or give general advice and assistance in connection with construction work.

(14) *Insurance* includes premiums paid or amounts provided or reserved as self-insurance for the protection against loss and damages in connection with construction, by fire or other casualty injuries to or death of persons other than employees, damages to property of others, defalcation of employees and agents, and the 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* (Major and Nonmajor Utilities) includes the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used, not to exceed, without prior approval of the Commission, allowances computed in accordance with the formula prescribed in paragraph (a) of this subparagraph. No allowance for funds used during construction charges shall be included in these accounts upon expenditures for construction projects which have been abandoned.

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

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

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

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 plus nuclear fuel in process of refinement, conversion, enrichment and fabrication, less asset retirement costs (See General Instruction 25) 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 § 35.13 of the Commission's Regulations Under the Federal Power Act. The cost rate for common equity shall be the rate granted common equity in the last rate proceeding before the ratemaking body having primary rate jurisdictions. If such cost rate is not available, the average rate actually earned during the preceding three years shall be used. The short-term debt balances and related cost and the average balance for construction work in progress plus nuclear fuel in process of refinement, conversion, enrichment, and fabrication shall be estimated for the current year with appropriate adjustments as actual data becomes available.

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

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

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

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

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

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

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

(21) *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.

B. For Nonmajor utilities, the cost of construction of property chargeable to the electric plant accounts shall include, where applicable, the cost of labor; materials and supplies; transportation; work done by others for the utility; injuries and damages incurred in construction work; privileges and permits; special machine service; allowance for funds used during construction, not to exceed without prior approval of the Commission, amounts computed in accordance with the formula prescribed in paragraph (a) of paragraph (17) of this Instruction; training costs; and such portion of general engineering, administrative salaries and expenses, insurance, taxes, and other analogous items as may be properly includable in construction costs. (See Operating Expense Instruction 4.) The rates and balances of short and long-term debt, preferred stock, common equity and construction work in progress shall be determined as prescribed in paragraph (b) of paragraph (17) of this Instruction.

4. *Overhead Construction Costs.*

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

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

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

5. *Electric Plant Purchased or Sold.*

A. When electric plant constituting an operating unit or system is acquired by purchase, merger, consolidation, liquidation, or otherwise, after the effective date of this system of accounts, the costs of acquisition, including expenses incidental thereto properly includible in electric plant, shall be charged to account 102, Electric Plant Purchased or Sold.

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

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

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

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

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

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

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

E. In connection with the acquisition of electric plant constituting an operating unit or system, the utility shall procure, if possible, all existing records relating to the property acquired, or certified copies thereof, and shall preserve such records in conformity with regulations or practices governing the preservation of records of its own construction.

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

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

6. Expenditures on Leased Property.

A. The cost of substantial initial improvements (including repairs, rearrangements, additions, and betterments) made in the course of preparing for utility service property leased for a period of more than one year, and the cost of subsequent substantial additions, replacements, or betterments to such property, shall be charged to the electric plant account appropriate for the class of property leased. If the service life of the improvements is terminable by action of the lease, the cost, less net salvage, of the improvements shall be spread over the life of the lease by charges to account 404, Amortization of Limited-Term Electric Plant. However, if the service life is not terminated by action of the lease but by depreciation proper, the cost of the improvements, less net salvage, shall be accounted for as depreciable plant. The provisions of this paragraph are applicable to property leased under either capital leases or operating leases.

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

7. Land and Land Rights.

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

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

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

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

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

F. The cost of buildings and other improvements (other than public improvements) shall not be included in the land accounts. If at the time of acquisition of an interest in land such interest extends to buildings or other improvements (other than public improvements) which are then devoted to utility operations, the land and improvements shall be separately appraised and the cost allocated to land and buildings or improvements on the basis of the appraisals. If the improvements are removed or wrecked without being used in operations, the cost of removing or wrecking shall be charged and the salvage credited to the account in which the cost of the land is recorded.

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

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

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

1. Bulkheads, buried, not requiring maintenance or replacement.
2. Cost, first, of acquisition including mortgages and other liens assumed (but not subsequent interest thereon).
3. [Reserved]
4. Condemnation proceedings, including court and counsel costs.
5. Consents and abutting damages, payment for.
6. Conveyancers' and notaries' fees.
7. Fees, commissions, and salaries to brokers, agents and others in connection with the acquisition of the land or land rights.
8. [Reserved]
9. Leases, cost of voiding upon purchase to secure possession of land.
10. Removing, relocating, or reconstructing, property of others, such as buildings, highways, railroads, bridges, cemeteries, churches, telephone and power lines, etc., in order to acquire quiet possession.
11. Retaining walls unless identified with structures.
12. Special assessments levied by public authorities for public improvements on the basis of benefits for new roads, new bridges, new sewers, new curbing, new pavements, and other public improvements, but not taxes levied to provide for the maintenance of such improvements.

13. Surveys in connection with the acquisition, but not amounts paid for topographical surveys and maps where such costs are attributable to structures or plant equipment erected or to be erected or installed on such land.
14. Taxes assumed, accrued to date of transfer of title.
15. Title, examining, clearing, insuring and registering in connection with the acquisition and defending against claims relating to the period prior to the acquisition.
16. Appraisals prior to closing title.
17. Cost of dealing with distributees or legatees residing outside of the state or county, such as recording power of attorney, recording will or exemplification of will, recording satisfaction of state tax.
18. Filing satisfaction of mortgage.
19. Documentary stamps.
20. Photographs of property at acquisition.
21. Fees and expenses incurred in the acquisition of water rights and grants.
22. Cost of fill to extend bulkhead line over land under water, where riparian rights are held, which is not occasioned by the erection of a structure.
23. Sidewalks and curbs constructed by the utility on public property.
24. Labor and expenses in connection with securing rights of way, where performed by company employees and company agents.

8. *Structures and Improvements.*

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

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

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

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

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

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

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

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

1. Architects' plans and specifications including supervision.
2. Ash pits (when located within the building). (Major Utilities)
3. Athletic field structures and improvements.
4. Boilers, furnaces, piping, wiring, fixtures, and machinery for heating, lighting, signaling, ventilating, and air-conditioning systems, plumbing, vacuum cleaning systems, incinerator and smoke pipe, flues, etc.
5. Bulkheads, including dredging, riprap fill, piling, decking, concrete, fenders, etc., when exposed and subject to maintenance and replacement.
6. Chimneys (Major Utilities).

7. Coal bins and bunkers.
8. Commissions and fees to brokers, agents, architects, and others.
9. Conduit (not to be removed) with its contents.
10. Damages to abutting property during construction.
11. Docks (Major Utilities).
12. Door checks and door stops (Major Utilities).
13. Drainage and sewerage systems.
14. Elevators, cranes, hoists, etc., and the machinery for operating them.
15. Excavation, including shoring, bracing, bridging, refill and disposal of excess excavated material, cofferdams around foundation, pumping water from cofferdams during construction, and test borings.
16. Fences and fence curbs (not including protective fences isolating items of equipment, which shall be charged to the appropriate equipment account).
17. Fire protection systems when forming a part of a structure.
18. Flagpole (Major Utilities).
19. Floor covering (permanently attached) (Major Utilities).
20. Foundations and piers for machinery, constructed as a permanent part of a building or other item listed herein.
21. Grading and clearing when directly occasioned by the building of a structure.
22. Intrasite communication system, poles, pole fixtures, wires, and cables.
23. Landscaping, lawns, shrubbery, etc.
24. Leases, voiding upon purchase to secure possession of structures.
25. Leased property, expenditures on.
26. Lighting fixtures and outside lighting system.
27. Mailchutes when part of a building (Major Utilities).
28. Marquee, permanently attached to building (Major Utilities).
29. Painting, first cost.
30. Permanent paving, concrete, brick, flagstone, asphalt, etc., within the property lines.
31. Partitions, including movable (Major Utilities).
32. Permits and privileges.
33. Platforms, railings, and gratings when constructed as a part of a structure.
34. Power boards for services to a building (Major Utilities).
35. Refrigerating systems for general use (Major Utilities).
36. Retaining walls except when identified with land.
37. Roadways, railroads, bridges, and trestles intrasite except railroads provided for in equipment accounts.
38. Roofs (Major Utilities).
39. Scales, connected to and forming a part of a structure (Major Utilities).
40. Screens (Major Utilities).
41. Sewer systems, for general use (Major Utilities).
42. Sidewalks, culverts, curbs and streets constructed by the utility on its property (Major Utilities).
43. Sprinkling systems (Major Utilities).
44. Sump pumps and pits (Major Utilities).
45. Stacks—brick, steel, or concrete, when set on foundation forming part of general foundation and steelwork of a building.
46. Steel inspection during construction (Major Utilities).
47. Storage facilities constituting a part of a building.
48. Storm doors and windows (Major Utilities).
49. Subways, areaways, and tunnels, directly connected to and forming part of a structure.
50. Tanks, constructed as part of a building or as a distinct structural unit.
51. Temporary heating during construction (net cost) (Major Utilities).
52. Temporary water connection during construction (net cost) (Major Utilities).
53. Temporary shanties and other facilities used during construction (net cost)
54. Topographical maps (Major Utilities).
55. Tunnels, intake and discharge, when constructed as part of a structure, including sluice gates, and those constructed to house mains.
56. Vaults constructed as part of a building.
57. Watchmen's sheds and clock systems (net cost when used during construction only) (Major Utilities).
58. Water basins or reservoirs.
59. Water front improvements (Major Utilities).
60. Water meters and supply system for a building or for general company purposes (Major Utilities).
61. Water supply piping, hydrants and wells (Major Utilities).

- 62. Wharves.
- 63. Window shades and ventilators (Major Utilities).
- 64. Yard drainage system (Major Utilities).
- 65. Yard lighting system (Major Utilities).
- 66. Yard surfacing, gravel, concrete, or oil. (First cost only.) (Major Utilities)

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

9. *Equipment.*

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

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

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

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

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

10. *Additions and Retirements of Electric Plant.*

A. For the purpose of avoiding undue refinement in accounting for additions to and retirements and replacements of electric plant, all property will be considered as consisting of (1) retirement units and (2) minor items of property. Each utility shall maintain a written property units listing for use in accounting for additions and retirements of electric plant and apply the listing consistently.

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

(1) When a retirement unit is added to electric plant, the cost thereof shall be added to the appropriate electric plant account, except that when units are acquired in the acquisition of any electric plant constituting an operating system, they shall be accounted for as provided in electric plant instruction 5.

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

depreciation applicable to such property. The cost of removal and the salvage shall be charged or credited, as appropriate, to such depreciation account.

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

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

(2) When a minor item of property is retired and not replaced, the book cost thereof shall be credited to the electric plant account in which it is included; and, in the event the minor item is a part of depreciable plant, the account for accumulated provision for depreciation shall be charged with the book cost and cost of removal and credited with the salvage. If, however, the book cost of the minor item retired and not replaced has been or will be accounted for by its inclusion in the retirement unit of which it is a part when such unit is retired, no separate credit to the property account is required when such minor item is retired.

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

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

E. The book cost of land retired shall be credited to the appropriate land account. If the land is sold, the difference between the book cost (less any accumulated provision for depreciation or amortization therefore which has been authorized and provided) and the sale price of the land (less commissions and other expenses of making the sale) shall be recorded in account 411.6, Gains from Disposition of Utility Plant, or 411.7, Losses from Disposition of Utility Plant when the property has been recorded in account 105, Electric Plant Held for Future Use, otherwise to accounts 421.1, Gain on Disposition of Property or 421.2, Loss on Disposition of Property, as appropriate. If the land is not used in utility service but is retained by the utility, the book cost shall be charged to account 105, Electric Plant Held for Future Use, or account 121, Nonutility Property, as appropriate.

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

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

11. Work Order and Property Record System Required.

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

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

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

12. Transfers of Property.

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

13. *Common Utility Plant.*

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

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

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

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

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

14. *Transmission and Distribution Plant.*

For the purpose of this system of accounts:

A. *Transmission system* means:

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

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

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

B. *Distribution system* means all land, structures, conversion equipment, lines, line transformers, and other facilities employed between the primary source of supply (i.e., generating station, or point of receipt in the case of purchased power) and of delivery to customers, which are not includible in transmission system, as defined in paragraph A, whether or not such land, structures, and facilities are operated as part of a transmission system or as part of a distribution system.

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

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

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

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

15. Hydraulic production plant (Major Utilities).

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

16. Nuclear Fuel Records Required (Major Utilities).

Each utility shall keep all the necessary records to support the entries to the various nuclear fuel plant accounts classified under "Assets and Other Debits," Utility Plant 120.1 through 120.6, inclusive, account 518, Nuclear Fuel Expense and account 157, Nuclear Materials Held for Sale. These records shall be so kept as to readily furnish the basis of the computation of the net nuclear fuel costs.

Operating Expense Instructions

1. Supervision and Engineering (Major Utilities).

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

Items

Labor

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

Expenses

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

2. Maintenance.

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

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

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

Items

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

3. Rents.

A. The rent expense accounts provided under the several functional groups of expense accounts shall include all rents, including taxes paid by the lessee on leased property, for property used in utility operations, except (1) minor amounts paid for occasional or infrequent use of any property or equipment and all amounts paid for use of equipment that, if owned, would be includible in plant accounts 391 to 398, inclusive, which shall be treated as an expense item and included in the appropriate functional account and (2) rents which are chargeable to clearing accounts, and distributed therefrom to the appropriate account. If rents cover property used for more than one function, such as production and transmission, or by more than one department, the rents shall be apportioned to the appropriate rent expense or clearing accounts of each department on an actual, or, if necessary, an estimated basis.

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

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

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

4. Training Costs.

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

Balance Sheet Chart of Accounts

ASSETS AND OTHER DEBITS

1. Utility Plant

- 101 Electric plant in service (Major only).
 - 101.1 Property under capital leases.
- 102 Electric plant purchased or sold.
- 103 Experimental electric plant unclassified (Major only).
 - 103.1 Electric plant in process of reclassification (Nonmajor only).
- 104 Electric plant leased to others.
- 105 Electric plant held for future use.
- 106 Completed construction not classified—Electric (Major only).
- 107 Construction work in progress—Electric.
- 108 Accumulated provision for depreciation of electric utility plant (Major only).

- 109 [Reserved]
- 110 Accumulated provision for depreciation and amortization of electric utility plant (Nonmajor only).
- 111 Accumulated provision for amortization of electric utility plant (Major only).
- 112–113 [Reserved]
- 114 Electric plant acquisition adjustments.
- 115 Accumulated provision for amortization of electric plant acquisition adjustments (Major only).
- 116 Other electric plant adjustments.
- 118 Other utility plant.
- 119 Accumulated provision for depreciation and amortization of other utility plant.
- 120.1 Nuclear fuel in process of refinement, conversion, enrichment and fabrication (Major only).
- 120.2 Nuclear fuel materials and assemblies—Stock account (Major only).
- 120.3 Nuclear fuel assemblies in reactor (Major only).
- 120.4 Spent nuclear fuel (Major only).
- 120.5 Accumulated provision for amortization of nuclear fuel assemblies (Major only).
- 120.6 Nuclear fuel under capital leases (Major only).

2. Other Property and Investments

- 121 Nonutility property.
- 122 Accumulated provision for depreciation and amortization of nonutility property.
- 123 Investment in associated companies (Major only).
- 123.1 Investment in subsidiary companies (Major only).
- 124 Other investments.
- 125 Sinking funds (Major only).
- 126 Depreciation fund (Major only).
- 127 Amortization fund—Federal (Major only).
- 128 Other special funds (Major only).
- 129 Special funds (Nonmajor only).

3. Current and Accrued Assets

- 130 Cash and working funds (Nonmajor only).
- 131 Cash (Major only).
- 132 Interest special deposits (Major only).
- 133 Dividend special deposits (Major only).
- 134 Other special deposits (Major only).
- 135 Working funds (Major only).
- 136 Temporary cash investments.
- 141 Notes receivable.
- 142 Customer accounts receivable.
- 143 Other accounts receivable.
- 144 Accumulated provision for uncollectible accounts—credit.
- 145 Notes receivable from associated companies.
- 146 Accounts receivable from associated companies.
- 151 Fuel stock (Major only).
- 152 Fuel stock expenses undistributed (Major only).
- 153 Residuals (Major only).
- 154 Plant materials and operating supplies.
- 155 Merchandise (Major only).
- 156 Other materials and supplies (Major only).
- 157 Nuclear materials held for sale (Major only).
- 158.1 Allowance inventory.
- 158.2 Allowances withheld.
- 163 Stores expense undistributed (Major only).
- 165 Prepayments.
- 171 Interest and dividends receivable (Major only).
- 172 Rents receivable (Major only).
- 173 Accrued utility revenues (Major only).
- 174 Miscellaneous current and accrued assets.

- 175 Derivative instrument assets.
- 176 Derivative instrument assets-Hedges.

4. Deferred Debits

- 181 Unamortized debt expense.
- 182.1 Extraordinary property losses.
- 182.2 Unrecovered plant and regulatory study costs.
- 182.3 Other regulatory assets.
- 183 Preliminary survey and investigation charges (Major only).
- 184 Clearing accounts (Major only).
- 185 Temporary facilities (Major only).
- 186 Miscellaneous deferred debits.
- 187 Deferred losses from disposition of utility plant.
- 188 Research, development, and demonstration expenditures (Major only).
- 189 Unamortized loss on reacquired debt.
- 190 Accumulated deferred income taxes.

LIABILITIES AND OTHER CREDITS

5. Proprietary Capital

- 201 Common stock issued.
- 202 Common stock subscribed (Major only).
- 203 Common stock liability for conversion (Major only).
- 204 Preferred stock issued.
- 205 Preferred stock subscribed (Major only).
- 206 Preferred stock liability for conversion (Major only).
- 207 Premium on capital stock (Major only).
- 208 Donations received from stockholders (Major only).
- 209 Reduction in par or stated value of capital stock (Major only).
- 210 Gain on resale or cancellation of reacquired capital stock (Major only).
- 211 Miscellaneous paid-in capital.
- 212 Installments received on capital stock.
- 213 Discount on capital stock.
- 214 Capital stock expense.
- 215 Appropriated retained earnings.
- 215.1 Appropriated retained earnings—Amortization reserve, Federal.
- 216 Unappropriated retained earnings.
- 216.1 Unappropriated undistributed subsidiary earnings (Major only).
- 217 Reacquired capital stock.
- 218 Noncorporate proprietorship (Nonmajor only).
- 219 Accumulated other comprehensive income.

6. Long-Term Debt

- 221 Bonds.
- 222 Reacquired bonds (Major only).
- 223 Advances from associated companies.
- 224 Other long-term debt.
- 225 Unamortized premium on long-term debt.
- 226 Unamortized discount on long-term debt—Debit.

7. Other Noncurrent Liabilities

- 227 Obligations under capital lease—noncurrent.
- 228.1 Accumulated provision for property insurance.
- 228.2 Accumulated provision for injuries and damages.
- 228.3 Accumulated provision for pensions and benefits.

- 228.4 Accumulated miscellaneous operating provisions.
- 229 Accumulated provision for rate refunds.
- 230 Asset retirement obligations.

8. Current and Accrued Liabilities

- 231 Notes payable.
- 232 Accounts payable.
- 233 Notes payable to associated companies.
- 234 Accounts payable to associated companies.
- 235 Customer deposits.
- 236 Taxes accrued.
- 237 Interest accrued.
- 238 Dividends declared (Major only).
- 239 Matured long-term debt (Major only).
- 240 Matured interest (Major only).
- 241 Tax collections payable (Major only).
- 242 Miscellaneous current and accrued liabilities.
- 243 Obligations under capital leases—current.
- 244 Derivatives instrument liabilities.
- 245 Derivative instrument liabilities—Hedges.

9. Deferred Credits

- 251 [Reserved]
- 252 Customer advances for construction.
- 253 Other deferred credits.
- 254 Other regulatory liabilities.
- 255 Accumulated deferred investment tax credits.
- 256 Deferred gains from disposition of utility plant.
- 257 Unamortized gain on reacquired debt.
- 281 Accumulated deferred income taxes—Accelerated amortization property.
- 282 Accumulated deferred income taxes—Other property.
- 283 Accumulated deferred income taxes—Other.

Balance Sheet Accounts

101 Electric plant in service (Major only).

A. This account shall include the original cost of electric plant, included in accounts 301 to 399, prescribed herein, owned and used by the utility in its electric utility operations, and having an expectation of life in service of more than one year from date of installation, including such property owned by the utility but held by nominees. (See also account 106 for unclassified construction costs of completed plant actually in service.)

B. The cost of additions to and betterments of property leased from others, which are includible in this account, shall be recorded in subdivisions separate and distinct from those relating to owned property. (See electric plant instruction 6.)

101.1 Property under capital leases.

A. This account shall include the amount recorded under capital leases for plant leased from others and used by the utility in its utility operations.

B. The electric property included in this account shall be classified separately according to the detailed accounts (301 to 399) prescribed for electric plant in service.

C. Records shall be maintained with respect to each capital lease reflecting: (1) name of lessor, (2) basic details of lease, (3) terminal date, (4) original cost or fair market value of property leased, (5) future minimum lease payments, (6) executory costs, (7) present value of minimum lease payments, (8) the amount representing interest and the interest rate used, and (9) expenses paid. Records

shall also be maintained for plant under a lease, to identify the asset retirement obligation and cost originally recognized for each lease and the periodic charges and credits made to the asset retirement obligations and asset retirement costs.

102 Electric plant purchased or sold.

A. This account shall be charged with the cost of electric plant acquired as an operating unit or system by purchase, merger, consolidation liquidation, or otherwise, and shall be credited with the selling price of like property transferred to others pending the distribution to appropriate accounts in accordance with electric plant instruction 5.

B. Within six months from the date of acquisition or sale of property recorded herein, the utility shall file with the Commission the proposed journal entries to clear from this account the amounts recorded herein.

103 Experimental electric plant unclassified (Major only).

A. This account shall include the cost of electric plant which was constructed as a research, development, and demonstration plant under the provisions of paragraph C, Account 107, Construction Work in Progress—Electric, and due to the nature of the plant it is desirous to operate it for a period of time in an experimental status.

B. Amounts in this account shall be transferred to Account 101, Electric Plant in Service, or Account 121, Nonutility Property as appropriate when the project is no longer considered as experimental.

C. The depreciation on plant in this account shall be charged to account 403, Depreciation expense, and account 403.1, Depreciation expense for asset retirement costs, as appropriate, and credited to account 108, Accumulated provision for depreciation of electric utility plant (Major only). The amounts herein shall be depreciated over a period which corresponds to the estimated useful life of the relevant project considering the characteristics involved. However, when projects are transferred to account 101, Electric plant in service, a new depreciation rate based on the remaining service life and undepreciated amounts, will be established.

D. Records shall be maintained with respect to each unit of experiment so that full details may be obtained as to the cost, depreciation and the experimental status.

E. Should it be determined that experimental plant recorded in this account will fail to satisfactorily perform its function, the costs thereof shall be accounted for as directed or authorized by the Commission.

103.1 Electric plant in process of reclassification (Nonmajor only).

A. This account shall include temporarily the balance of electric plant as of the effective date of the prior system of accounts, which has not yet been reclassified as of the effective date of this system of accounts. The detail or primary accounts in support of this account employed prior to such date shall be continued pending reclassification into the electric plant accounts herein prescribed (301–399), but shall not be used for additions, betterments, or new construction.

B. No charges other than as provided in paragraph A, above, shall be made to this account, but retirements of such unclassified electric plant shall be credited hereto and to the supporting (old) fixed capital accounts until the reclassification shall have been accomplished.

104 Electric plant leased to others.

A. This account shall include the original cost of electric plant owned by the utility, but leased to others as operating units or systems, where the lessee has exclusive possession.

B. The property included in this account shall be classified according to the detailed accounts (301 to 399) prescribed for electric plant in service and this account shall be maintained in such detail as though the property were used by the owner in its utility operations.

105 Electric plant held for future use.

A. This account shall include the original cost of electric plant (except land and land rights) owned and held for future use in electric service under a definite plan for such use, to include: (1) Property acquired (except land and land rights) but never used by the utility in electric service, but held for such service in the future under a definite plan, and (2) property (except land and land rights) previously used by the utility in service, but retired from such service and held pending its reuse in the future, under a definite plan, in electric service.

B. This account shall also include the original cost of land and land rights owned and held for future use in electric service under a plan for such use, to include land and land rights: (1) Acquired but never used by the utility in electric service, but held for such service in the future under a plan, and (2) previously held by the utility in service, but retired from such service and held pending its reuse in the future under a plan, in electric service. (See Electric Plant Instruction 7.)

C. In the event that property recorded in this account shall no longer be needed or appropriate for future utility operations, the company shall request Commission approval of journal entries to remove such property from this account when the gain realized from the sale or other disposition of the property is \$100,000 or more, prior to their being recorded. Such filings shall include the description and original cost of individual properties removed from this account, the accounts charged upon removal, and any associated gains realized upon disposition of such property.

D. Gains or losses from the sale of land and land rights or other disposition of such property previously recorded in this account and not placed in utility service shall be recorded directly in accounts 411.6 or 411.7, as appropriate, except when determined to be significant by the Commission. Upon such a determination, the amounts shall be transferred to account 256, Deferred Gains from Disposition of Utility Plant, or account 187, Deferred Losses from Disposition of Utility Plant, and amortized to accounts 411.6, Gains from Disposition of Utility Plant, or 411.7, Losses from Disposition of Utility Plant, as appropriate.

E. The property included in this account shall be classified according to the detail accounts (301 to 399) prescribed for electric plant in service and the account shall be maintained in such detail as though the property were in service.

Note: Materials and supplies, meters and transformers held in reserve, and normal spare capacity of plant in service shall not be included in this account.

106 Completed construction not classified—Electric (Major only).

At the end of the year or such other date as a balance sheet may be required by the Commission, this account shall include the total of the balances of work orders for electric plant which has been completed and placed in service but which work orders have not been classified for transfer to the detailed electric plant accounts.

Note: For the purpose of reporting to the Commission the classification of electric plant in service by accounts is required, the utility shall also report the balance in this account tentatively classified as accurately as practicable according to prescribed account classifications. The purpose of this provision is to avoid any significant omissions in reported amounts of electric plant in service.

107 Construction work in progress—Electric.

A. This account shall include the total of the balances of work orders for electric plant in process of construction.

B. Work orders shall be cleared from this account as soon as practicable after completion of the job. Further, if a project, such as a hydroelectric project, a steam station or a transmission line, is designed to consist of two or more units or circuits which may be placed in service at different dates, any expenditures which are common to and which will be used in the operation of the project as a whole shall be included in electric plant in service upon the completion and the readiness for service of the first unit. Any expenditures which are identified exclusively with units of property not yet in service shall be included in this account.

C. Expenditures on research, development, and demonstration projects for construction of utility facilities are to be included in a separate subdivision in this account. Records must be maintained to show separately each project along with complete detail of the nature and purpose of the research, development, and demonstration project together with the related costs.

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

A. This account shall be credited with the following:

- (1) Amounts charged to account 403, Depreciation Expense, or to clearing accounts for current depreciation expense for electric plant in service.
- (2) Amounts charged to account 403.1, Depreciation expense for asset retirement costs, for current depreciation expense related to asset retirement costs in electric plant in service in a separate subaccount.
- (3) Amounts charged to account 421, Miscellaneous Nonoperating Income, for depreciation expense on property included in account 105, Electric Plant Held for Future Use. Include, also, the balance of accumulated provision for depreciation on property when transferred to account 105, Electric Plant Held for Future Use, from other property accounts. Normally account 108 will not be used for current depreciation provisions because, as provided herein, the service life during which depreciation is computed commences with the date property is includible in electric plant in service; however, if special circumstances indicate the propriety of current accruals for depreciation, such charges shall be made to account 421, Miscellaneous Nonoperating Income.
- (4) Amounts charged to account 413, Expenses of Electric Plant Leased to Others, for electric plant included in account 104, Electric Plant Leased to Others.
- (5) Amounts charged to account 416, Costs and Expenses of Merchandising, Jobbing, and Contract Work, or to clearing accounts for current depreciation expense.
- (6) Amounts of depreciation applicable to electric properties acquired as operating units or systems. (See electric plant instruction 5.)
- (7) Amounts charged to account 182, Extraordinary Property Losses, when authorized by the Commission.
- (8) Amounts of depreciation applicable to electric plant donated to the utility.

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

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

C. For general ledger and balance sheet purposes, this account shall be regarded and treated as a single composite provision for depreciation. For purposes of analysis, however, each utility shall maintain subsidiary records in which this account is segregated according to the following functional classification for electric plant:

- (1) Steam production,
- (2) Nuclear production,
- (3) Hydraulic production,
- (4) Other production,
- (5) Transmission,
- (6) Distribution,
- (7) Regional Transmission and Market Operation, and
- (8) General.

These subsidiary records shall reflect the current credits and debits to this account in sufficient detail to show separately for each such functional classification:

- (a) The amount of accrual for depreciation,
- (b) The book cost of property retired,
- (c) Cost of removal,
- (d) Salvage, and
- (e) Other items, including recoveries from insurance.

Separate subsidiary records shall be maintained for the amount of accrued cost of removal other than legal obligations for the retirement of plant recorded in Account 108, Accumulated provision for depreciation of electric utility plant (Major only).

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

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

109 [Reserved]

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

A. This account shall be credited with the following:

- (1) Amounts charged to account 403 Depreciation Expense, to account 404 Amortization of Limited-Term Electric Plant, to account 405, Amortization of Other Electric Plant, to account 413, Expenses of Electric Plant Leased to Others, to account 416. Costs and Expenses of Merchandising, Jobbing and Contract Work, or to clearing accounts for currently accruing depreciation and amortization.
- (2) Amounts charged to account 403.1, Depreciation expense for asset retirement costs, in electric utility plant in service in a separate subaccount.
- (3) Amounts of depreciation applicable to electric properties acquired as operating units or systems. (See electric plant instruction 4.)
- (4) Amounts chargeable to account 182, Extraordinary Property Losses, when authorized by the Commission.
- (5) Amounts of depreciation applicable to electric plant donated to the utility.

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

C. For general ledger and balance sheet purposes, this account shall be regarded and treated as a single composite provision for depreciation. This account shall be subdivided to show the amount applicable to Electric Plant in Service, Electric Plant Leased to Others, and Electric Plant Held for Future Use. These subsidiary records shall show the current credits and debits to this account in sufficient detail to show separately for each subdivision, (1) the amount of accrual for depreciation or amortization, (2) the book cost of property retired, (3) cost of removal, (4) salvage and (5) other items, including recoveries from insurance. Separate subsidiary records shall be maintained for the amount of accrued cost of removal other than legal obligations for the retirement of plant recorded in account 110, Accumulated provision for depreciation of electric utility plant (Nonmajor only).

D. When transfers of plant are made from one electric plant account to another, or from or to nonutility property, the accounting shall be as provided in electric plant instruction 10.

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

1 Accumulated provision for amortization of electric utility plant (Major only).

A. This account shall be credited with the following:

(1) Amounts charged to account 404, Amortization of Limited-Term Electric Plant, for the current amortization of limited-term electric plant investments.

(2) Amounts charged to account 421, Miscellaneous Nonoperating Income, for amortization expense on property included in account 105, Electric Plant Held for Future Use. Include also the balance of accumulated provision for amortization on property when transferred to account 105, Electric Plant Held for Future Use, from other property accounts. See also paragraph A(2), account 108, Accumulated Provision for Depreciation of Electric Utility Plant.

(3) Amounts charged to account 405, Amortization of Other Electric Plant.

(4) Amounts charged to account 413, Expenses of Electric Plant Leased to Others, for the current amortization of limited-term or other investments subject to amortization included in account 104, Electric Plant Leased to Others.

(5) Amounts charged to account 425, Miscellaneous Amortization, for the amortization of intangible or other electric plant which does not have a definite or terminable life and is not subject to charges for depreciation expense, with Commission approval.

(The utility shall maintain subaccounts of this account for the amortization applicable to electric plant in service, electric plant leased to others and electric plant held for future use.)

B. When any property to which this account applies is sold, relinquished, or otherwise retired from service, this account shall be charged with the amount previously credited in respect to such property. The book cost of the property so retired less the amount chargeable to this account and less the net proceeds realized at retirement shall be included in account 421.1, Gain on Disposition of Property, or account 421.2, Loss on Disposition of Property, as appropriate.

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

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

112-113 [Reserved]

114 Electric plant acquisition adjustments.

A. This account shall include the difference between (1) the cost to the accounting utility of electric plant acquired as an operating unit or system by purchase, merger, consolidation, liquidation, or otherwise, and (2) the original cost, estimated, if not known, of such property, less the amount or amounts credited by the accounting utility at the time of acquisition to accumulated provisions for depreciation and amortization and contributions in aid of construction with respect to such property.

B. With respect to acquisitions after the effective date of this system of accounts, this account shall be subdivided so as to show the amounts included herein for each property acquisition and to electric plant in service, electric plant held for future use, and electric plant leased to others. (See electric plant instruction 5.)

C. Debit amounts recorded in this account related to plant and land acquisition may be amortized to account 425, Miscellaneous Amortization, over a period not longer than the estimated remaining life of the properties to which such amounts relate. Amounts related to the acquisition of land only may be amortized to account 425 over a period of not more than 15 years. Should a utility wish to account for debit amounts in this account in any other manner, it shall petition the Commission for authority to do so. Credit amounts recorded in this account shall be accounted for as directed by the Commission.

15 Accumulated provision for amortization of electric plant acquisition adjustments (Major only).

This account shall be credited or debited with amounts which are includible in account 406, Amortization of Electric Plant Acquisition Adjustments or account 425, Miscellaneous Amortization, for the purpose of providing for the extinguishment of amounts in account 114, Electric Plant Acquisition Adjustments, in instances where the amortization of account 114 is not being made by direct write-off of the account.

116 Other electric plant adjustments.

A. This account shall include the difference between the original cost, estimated if not known, and the book cost of electric plant to the extent that such difference is not properly includible in account 114, Electric Plant Acquisition Adjustments. (See electric plant instruction 1C).

B. Amounts included in this account shall be classified in such manner as to show the origin of each amount and shall be disposed of as the Commission may approve or direct.

Note: The provisions of this account shall not be construed as approving or authorizing the recording of appreciation of electric plant.

118 Other utility plant.

This account shall include the balances in accounts for utility plant, other than electric plant, such as gas, railway, etc.

119 Accumulated provision for depreciation and amortization of other utility plant.

This account shall include the accumulated provision for depreciation and amortization applicable to utility property other than electric plant.

120.1 Nuclear fuel in process of refinement, conversion, enrichment and fabrication (Major only).

A. This account shall include the original cost to the utility of nuclear fuel materials while in process of refinement, conversion, enrichment, and fabrication into nuclear fuel assemblies and components, including processing, fabrication, and necessary shipping costs. This account shall also include the salvage value of nuclear materials which are actually being reprocessed for use and were transferred from account 120.5, Accumulated Provision for Amortization of Nuclear Fuel Assemblies. (See definition 20.)

B. This account shall be credited and account 120.2, Nuclear Fuel Materials and Assemblies—Stock Account, shall be debited for the cost of completed fuel assemblies delivered for use in refueling or to be held as spares. In the case of the initial core loading, the transfer shall be made directly to account 120.3, Nuclear Fuel Assemblies in Reactor, upon the conclusion of the experimental or test period of the plant prior to its becoming available for service.

items

1. Cost of natural uranium, uranium ores concentrates or other nuclear fuel sources, such as thorium, plutonium, and U-233.
2. Value of recovered nuclear materials being reprocessed for use.
3. Milling process costs.
4. Sampling and weighing, and assaying costs.
5. Purification and conversion process costs.
6. Costs of enrichment by gaseous diffusion or other methods.
7. Costs of fabrication into fuel forms suitable for insertion in the reactor.
8. All shipping costs of materials and components, including shipping of fabricated fuel assemblies to the reactor site.
9. Use charges on leased nuclear materials while in process of refinement, conversion, enrichment, and fabrication.

120.2 Nuclear fuel materials and assemblies—Stock account (Major only).

A. This account shall be debited and account 120.1, Nuclear Fuel in Process of Refinement, Conversion, Enrichment, and Fabrication, shall be credited with the cost of fabricated fuel assemblies delivered for use in refueling or to be carried in stock as spares. It shall also include the original cost of fabricated fuel assemblies purchased in completed form. This account shall also include the original cost of partially irradiated fuel assemblies being held in stock for reinsertion in a reactor which had been transferred from account 120.3, Nuclear Fuel Assemblies in Reactor.

B. When fuel assemblies included in this account are inserted in a reactor, this account shall be credited and account 120.3, Nuclear Fuel Assemblies in Reactor, debited for the cost of such assemblies.

C. This account shall also include the cost of nuclear materials and byproduct materials being held for future use and not actually in process in account 120.1, Nuclear Fuel in Process of Refinement, Conversion, Enrichment, and Fabrication.

120.3 Nuclear fuel assemblies in reactor (Major only).

A. This account shall include the cost of nuclear fuel assemblies when inserted in a reactor for the production of electricity. The amounts included herein shall be transferred from account 120.2, Nuclear Fuel Materials and Assemblies—Stock Account, except for the initial core loading which will be transferred directly from account 120.1.

B. Upon removal of fuel assemblies from a reactor, the original cost of the assemblies removed shall be transferred to account 120.4, Spent Nuclear Fuel or account 120.2, Nuclear Fuel Materials and Assemblies—Stock Account, as appropriate.

120.4 Spent nuclear fuel (Major only).

A. This account shall include the original cost of nuclear fuel assemblies, in the process of cooling, transferred from account 120.3, Nuclear Fuel Assemblies in Reactor, upon removal from a reactor pending reprocessing.

B. This account shall be credited and account 120.5, Accumulated Provision for Amortization of Nuclear Fuel Assemblies, debited for fuel assemblies, after the cooling period is over, at the cost recorded in this account.

120.5 Accumulated provision for amortization of nuclear fuel assemblies (Major only).

A. This account shall be credited and account 518, Nuclear fuel expense shall be debited for the amortization of the net cost of nuclear fuel assemblies used in the production of energy. The net cost of nuclear fuel assemblies subject to amortization shall be the original cost of nuclear fuel assemblies, plus or less the expected net salvage value of uranium, plutonium, and other by-products.

B. This account shall be credited with the net salvage value of uranium, plutonium, and other nuclear by-products when such items are sold, transferred or otherwise disposed of. Account 120.1, Nuclear Fuel in Process of Refinement, Conversion, Enrichment, and Fabrication, shall be debited with the net salvage value of nuclear materials to be reprocessed. Account 157, Nuclear Materials Held for Sale shall be debited for the net salvage value of nuclear materials not to be reprocessed but to be sold or otherwise disposed of and account 120.2, will be debited with the net salvage value of nuclear materials that will be held for future use and not actually in process, in account 120.1, Nuclear Fuel in Process of Refinement, Conversion, Enrichment, and Fabrication.

C. This account shall be debited and account 120.4, Spent Nuclear Fuel, shall be credited with the cost of fuel assemblies at the end of the cooling period.

120.6 Nuclear fuel under capital leases (Major only).

A. This account shall include the amount recorded under capital leases for nuclear fuel leased from others for use by the utility in its utility operations.

B. Records shall be maintained with respect to each capital lease reflecting: (1) Name of lessor, (2) basic details of lease, (3) terminal date, (4) original cost or fair market value of nuclear fuel leased, (5) future minimum lease payments, (6) executory costs, (7) present value of minimum lease payments, (8) the amount representing interest and the interest rate used, and (9) expenses paid.

121 Nonutility property.

A. This account shall include the book cost of land, structures, equipment, or other tangible or intangible property owned by the utility, but not used in utility service and not properly includible in account 105, Electric Plant Held for Future Use. This account shall also include, where applicable, amounts recorded for asset retirement costs associated with nonutility plant.

B. This account shall also include the amount recorded under capital leases for property leased from others and used by the utility in its nonutility operations. Records shall be maintained with respect to each lease reflecting: (1) name of lessor, (2) basic details of lease, (3) terminal date, (4) original cost or fair market value of property leased, (5) future minimum lease payments, (6) executory costs, (7) present value of minimum lessee payments, (8) the amount representing interest and the interest rate used, and (9) expenses paid.

C. This account shall be subdivided so as to show the amount of property used in operations which are nonutility in character but nevertheless constitute a distinct operating activity of the company (such as operation of an ice department where such activity is not classed as a utility) and the amount of miscellaneous property not used in operations. The records in support of each subaccount shall be maintained so as to show an appropriate classification of the property.

Note: The gain from the sale or other disposition of property included in this account which had been previously recorded in account 105, Electric Plant Held for Future Use, shall be accounted for in accordance with paragraph C of account 105.

122 Accumulated provision for depreciation and amortization of nonutility property.

This account shall include the accumulated provision for depreciation and amortization applicable to nonutility property.

123 Investment in associated companies (Major only).

A. This account shall include the book cost of investments in securities issued or assumed by associated companies and investment advances to such companies, including interest accrued thereon when such interest is not subject to current settlement, provided that the investment does not relate to a subsidiary company. (If the investment relates to a subsidiary company it shall be included in account 123.1, Investment in Subsidiary Companies.) Include herein the offsetting entry to the recording of amortization of discount or premium on interest bearing investments. (See account 419, Interest and Dividend Income.)

B. This account shall be maintained in such manner as to show the investment in securities of, and advances to, each associated company together with full particulars regarding any of such investments that are pledged.

Note A: Securities and advances of associated companies owned and pledged shall be included in this account, but such securities, if held in special deposits or in special funds, shall be included in the appropriate deposit or fund account. A complete record of securities pledged shall be maintained.

Note B: Securities of associated companies held as temporary cash investments are includible in account 136, Temporary Cash Investments.

Note C: Balances in open accounts with associated companies, which are subject to current settlement, are includible in account 146, Accounts Receivable from Associated Companies.

Note D: The utility may write down the cost of any security in recognition of a decline in the value thereof. Securities shall be written off or written down to a nominal value if there is no reasonable prospect of substantial value. Fluctuations in market value shall not be recorded but a permanent impairment in the value of securities shall be recognized in the accounts. When securities are written off or written down, the amount of the adjustment shall be charged to account 426.5, Other Deductions, or to an appropriate account for accumulated provisions for loss in value established as a separate subdivision of this account.

123.1 Investment in subsidiary companies (Major only).

A. This account shall include the cost of investments in securities issued or assumed by subsidiary companies and investment advances to such companies, including interest accrued thereon when such interest is not subject to current settlement plus the equity in undistributed earnings or losses of such subsidiary companies since acquisition. This account shall be credited with any dividends declared by such subsidiaries.

B. This account shall be maintained in such a manner as to show separately for each subsidiary: the cost of such investments in the securities of the subsidiary at the time of acquisition; the amount of equity in the subsidiary's undistributed net earnings or net losses since acquisition; advances or loans to such subsidiary; and full particulars regarding any such investments that are pledged.

124 Other investments.

A. This account shall include the book cost of investments in securities issued or assumed by nonassociated companies, investment advances to such companies, and any investments not accounted for elsewhere. This account shall also include unrealized holding gains and losses on trading and available-for-sale types of security investments. Include also the offsetting entry to the recording of amortization of discount or premium on interest bearing investments. (See account 419, interest and dividend income.)

B. The cost of capital stock of the utility reacquired by it under a definite plan for resale pursuant to authorization by the Board of Directors may, if permitted by statutes, be included in a separate subdivision of this account. (See also account 210, Gain on Resale or Cancellation of Reacquired Capital Stock, and account 217, Reacquired Capital Stock.)

C. The records shall be maintained in such manner as to show the amount of each investment and the investment advances to each person.

Note A: Securities owned and pledged shall be included in this account, but securities held in special deposits or in special funds shall be included in appropriate deposit or fund accounts. A complete record of securities pledged shall be maintained.

Note B: Securities held as temporary cash investments shall not be included in this account.

Note C: Special funds. See Note D of account 123.

125 Sinking funds (Major only).

This account shall include the amount of cash and book cost of investments held in sinking funds. This account shall also include unrealized holding gains and losses on trading and available-for-sale types of security investments. A separate account, with appropriate title, shall be kept for each sinking fund. Transfers from this account to special deposit accounts may be made as necessary for the purpose of paying matured sinking-fund obligations, or obligations called for redemption but not presented, or the interest thereon.

126 Depreciation fund (Major only).

This account shall include the amount of cash and book cost of investments which have been segregated in a special fund for the purpose of identifying such assets with the accumulated provisions for depreciation. This account shall also include unrealized holding gains and losses on trading and available-for-sale types of security investments.

127 Amortization fund—Federal (Major only).

This account shall include the amount of cash and book cost of investments of any investments of any fund maintained pursuant to the requirements of a federal regulatory body, as the cash and investments segregated for the purpose of identifying the specific assets associated with account 215.1, appropriated retained earnings—amortization reserve, federal. This account shall also include unrealized holding gains and losses on trading and available-for-sale types of security investments.

128 Other special funds (Major only).

This account shall include the amount of cash and book cost of investments which have been segregated in special funds for insurance, employee pensions, savings, relief, hospital, and other purposes not provided for elsewhere. This account shall also include unrealized holding gains and losses on trading and available-for-sale types of security investments. A separate account with appropriate title, shall be kept for each fund.

Note: Amounts deposited with a trustee under the terms of an irrevocable trust agreement for pensions or other employee benefits shall not be included in this account.

Special Instructions for Current and Accrued Assets. Current and accrued assets are cash, those assets which are readily convertible into cash or are held for current use in operations or construction, current claims against others, payment of which is reasonably assured, and amounts accruing to the utility which are subject to current settlement, except such items for which accounts other than those designated as current and accrued assets are provided. There shall not be included in the group of accounts designated as current and accrued assets any item, the amount or collectibility of which is not reasonably assured, unless an adequate provision for possible loss has been made therefor. Items of current character but of doubtful value may be written down and for record purposes carried in these accounts at nominal value.

129 Special funds (Nonmajor only).

This account shall include the amount of cash and book cost of investments which have been segregated in special funds for bond retirements, property additions and replacements, insurance, employees' pensions, savings, relief, hospital, and other purposes not provided for elsewhere. This account shall also include unrealized holding gains and losses on trading and available-for-sale types of security investments. A separate account, with appropriate title, shall be kept for each fund.

Note A: Amounts deposited with a trustee under the terms of an irrevocable trust agreement for pensions or other employees benefits shall not be included in this account.

Note B: Licensees under the Federal Power Act which are required to establish an amortization fund under terms of the license shall provide a special subdivision of this account for the purpose of accounting for and identifying the cash, investments or other specific assets associated with account 215.1, Appropriated Retained Earnings—Amortization Reserve, Federal.

Special Instructions for Current and Accrued Assets. Current and accrued assets are cash, those assets which are readily convertible into cash or are held for current use in operations or construction, current claims against others, payment of which is reasonably assured, and amounts accruing to the utility which are subject to current settlement, except such items for which accounts other than those designated as current and accrued assets are provided. There shall not be included in the group of accounts designated as current and accrued assets any item, the amount or collectibility of which is not reasonably assured, unless an adequate provision for possible loss has been made therefor. Items of current character but of doubtful value may be written down and for record purposes carried in these accounts at nominal value.

130 Cash and working funds (Nonmajor only).

This account shall include the amount of cash on hand and in banks and cash advanced to officers, agents, employees, and others as petty cash or working funds. Special cash deposits for payment of interest, dividends or other special purposes shall be included in this account in separate subdivisions which shall specify the purpose for which each such special deposit is made.

Note: Special Deposits for more than one year which are not offset by current liabilities, shall not be charged to this account but to account 125, Special Funds.

131 Cash (Major only).

This account shall include the amount of current cash funds except working funds.

132 Interest special deposits (Major only).

This account shall include special deposits with fiscal agents or others for the payment of interest.

133 Dividend special deposits (Major only).

This account shall include special deposits with fiscal agents or others for the payment of dividends.

134 Other special deposits (Major only).

This account shall include deposits with fiscal agents or others for special purposes other than the payment of interest and dividends. Such special deposits may include cash deposited with federal, state, or municipal authorities as a guaranty for the fulfillment of obligations; cash deposited with trustees to be held until mortgaged property sold, destroyed, or otherwise disposed of is replaced; cash realized from the sale of the accounting utility's securities and deposited with trustees to be held until invested in property of the utility, etc. Entries to this account shall specify the purpose for which the deposit is made.

Note: Assets available for general corporate purposes shall not be included in this account. Further, deposits for more than one year, which are not offset by current liabilities, shall not be charged to this account but to account 128, Other Special Funds.

135 Working funds (Major only).

This account shall include cash advanced to officers, agents, employees, and others as petty cash or working funds.

136 Temporary cash investments.

A. This account shall include the book cost of investments, such as demand and time loans, bankers' acceptances, United States Treasury certificates, marketable securities, and other similar investments, acquired for the purpose of temporarily investing cash.

B. This account shall be so maintained as to show separately temporary cash investments in securities of associated companies and of others. Records shall be kept of any pledged investments.

141 Notes receivable.

This account shall include the book cost, not includible elsewhere, of all collectible obligations in the form of notes receivable and similar evidences (except interest coupons) of money due on demand or within one year from the date of issue, except, however, notes receivable from associated companies. (See account 136, Temporary Cash Investments, and account 145, Notes Receivable from Associated Companies.)

Note: The face amount of notes receivable discounted, sold, or transferred without releasing the utility from liability as endorser thereon, shall be credited to a separate subdivision of this account and appropriate disclosure shall be made in financial statements of any contingent liability arising from such transactions.

142 Customer accounts receivable.

A. This account shall include amounts due from customers for utility service, and for merchandising, jobbing and contract work. This account shall not include amounts due from associated companies.

B. This account shall be maintained so as to permit ready segregation of the amounts due for merchandising, jobbing and contract work.

143 Other accounts receivable.

A. This account shall include amounts due the utility upon open accounts, other than amounts due from associated companies and from customers for utility services and merchandising, jobbing and contract work.

B. This account shall be maintained so as to show separately amounts due on subscriptions to capital stock and from officers and employees, but the account shall not include amounts advanced to officers or others as working funds. (See account 135, Working Funds.)

144 Accumulated provision for uncollectible accounts—credit.

A. This account shall be credited with amounts provided for losses on accounts receivable which may become uncollectible, and also with collections on accounts previously charged hereto. Concurrent charges shall be made to account 904, Uncollectible Accounts, for amounts applicable to utility operations, and to corresponding accounts for other operations. Records shall be maintained so as to show the write-offs of account receivable for each utility department.

B. This account shall be subdivided to show the provision applicable to the following classes of accounts receivable:

Utility customers.

Merchandising, jobbing and contract work.

Officers and employees.

Others.

Note A: Accretions to this account shall not be made in excess of a reasonable provision against losses of the character provided for.

Note B: If provisions for uncollectible notes receivable or for uncollectible receivables from associated companies are necessary, separate subaccounts therefor shall be established under the account in which the receivable is carried.

145 Notes receivable from associated companies.

146 Accounts receivable from associated companies.

A. These accounts shall include notes and drafts upon which associated companies are liable, and which mature and are expected to be paid in full not later than one year from the date of issue, together with any interest thereon, and debit balances subject to current settlement in open accounts with associated companies. Items which do not bear a specified due date but which have been carried for more than twelve months and items which are not paid within twelve months from due date shall be transferred to account 123, Investment in Associated Companies.

B. A public utility or licensee participating in a cash management program must maintain supporting documentation for all deposits into, borrowings from, interest income from, and interest expense to such program. Cash management programs include all agreements in which funds in excess of the daily needs of the public utility or licensee along with the excess funds of the public utility's or licensee's parent, affiliated and subsidiary companies are concentrated, consolidated, or otherwise made available for use by other entities within the corporate group. The written documentation must include the following information:

(1) For deposits with and withdrawals from the cash management program: the date of the deposit or withdrawal, the amount of the deposit or withdrawal, and the maturity date, if any, of the deposit;

(2) For borrowings from a cash management program: the date of the borrowing, the amount of the borrowing, and the maturity date, if any, of the borrowing;

(3) The security, if any, provided by the cash management program for repayment of deposits into the cash management program and the security required, if any, by the cash management program in support of borrowings from the program; and

(4) The monthly balance of the cash management program.

C. The public utility or licensee must maintain current and up-to-date copies of the documents authorizing the establishment of the cash management program including the following:

- (1) The duties and responsibilities of the administrator and the public utilities or licensees in the cash management program;
- (2) The restrictions on deposits or borrowings by public utilities or licensees in the cash management program;
- (3) The interest rate, including the method used to determine the interest earning rates and interest borrowing rates for deposits into and borrowings from the program; and
- (4) The method used to allocate interest income and expenses among public utilities or licensees in the program.

Note A: On the balance sheet, accounts receivable from an associated company may be set off against accounts payable to the same company.

Note B: The face amount of notes receivable discounted, sold or transferred without releasing the utility from liability as endorser thereon, shall be credited to a separate subdivision of this account and appropriate disclosure shall be made in financial statements of any contingent liability arising from such transactions.

151 Fuel stock (Major only).

This account shall include the book cost of fuel on hand.

Items

1. Invoice price of fuel less any cash or other discounts.
2. Freight, switching, demurrage and other transportation charges, not including, however, any charges for unloading from the shipping medium.
3. Excise taxes, purchasing agents' commissions, insurance and other expenses directly assignable to cost of fuel.
4. Operating, maintenance and depreciation expenses and ad valorem taxes on utility-owned transportation equipment used to transport fuel from the point of acquisition to the unloading point.
5. Lease or rental costs of transportation equipment used to transport fuel from the point of acquisition to the unloading point.

152 Fuel stock expenses undistributed (Major only).

A. This account may include the cost of labor and of supplies used and expenses incurred in unloading fuel from the shipping medium and in the handling thereof prior to its use, if such expenses are sufficiently significant in amount to warrant being treated as a part of the cost of fuel inventory rather than being charged direct to expense as incurred.

B. Amounts included herein shall be charged to expense as the fuel is used to the end that the balance herein shall not exceed the expenses attributable to the inventory of fuel on hand.

Items

Labor:

1. Procuring and handling of fuel.
2. All routine fuel analyses.
3. Unloading from shipping facility and putting in storage.
4. Moving of fuel in storage and transferring from one station to another.
5. Handling from storage or shipping facility to first bunker, hopper, bucket, tank or holder of boiler house structure.
6. Operation of mechanical equipment, such as locomotives, trucks, cars, boats, barges, cranes, etc.

Supplies and Expenses:

7. Tools, lubricants and other supplies.
8. Operating supplies for mechanical equipment.
9. Transportation and other expenses in moving fuel.

10. Stores expenses applicable to fuel.

153 Residuals (Major only).

This account shall include the book cost of any residuals produced in production or manufacturing processes.

154 Plant materials and operating supplies.

A. This account shall include the cost of materials purchased primarily for use in the utility business for construction, operation and maintenance purposes. For Nonmajor utilities, this account shall include the cost of fuel on hand and unapplied materials and supplies (except meters and house regulators). For both Major and Nonmajor utilities, it shall include also the book cost of materials recovered in connection with construction, maintenance or the retirement of property, such materials being credited to construction, maintenance or accumulated depreciation provision, respectively, and included herein as follows:

(1) Reusable materials consisting of large individual items shall be included in this account at original cost, estimated if not known. The cost of repairing such items shall be charged to the maintenance account appropriate for the previous use.

(2) Reusable materials consisting of relatively small items, the identity of which (from the date of original installation to the final abandonment or sale thereof) cannot be ascertained without undue refinement in accounting, shall be included in this account at current prices new for such items. The cost of repairing such items shall be charged to the appropriate expense account as indicated by previous use.

(3) Scrap and nonusable materials included in this account shall be carried at the estimated net amount realizable therefrom. The difference between the amounts realized for scrap and nonusable materials sold and the net amount at which the materials were carried in this account, as far as practicable, shall be adjusted to the accounts credited when the materials were charged to this account.

B. Materials and supplies issued shall be credited hereto and charged to the appropriate construction, operating expense, or other account on the basis of a unit price determined by the use of cumulative average, first-in-first-out, or such other method of inventory accounting as conforms with accepted accounting standards consistently applied.

C. For Nonmajor utilities, inventories of materials, supplies, fuel, etc., shall be taken at least annually and the necessary adjustments shall be made to bring this account into agreement with the actual inventories. In effecting the adjustments, large differences which can be assigned to important classes of materials shall be equitably adjusted among the accounts to which such classes of materials have been charged since the previous inventory. Other differences shall be equitably apportioned among the accounts to which materials have been charged.

Items

1. Invoice price of materials less cash or other discounts.
2. Freight, switching or other transportation charges when practicable to include as part of the cost of particular materials to which they relate.
3. Customs duties and excise taxes.
4. Costs of inspection and special tests prior to acceptance.
5. Insurance and other directly assignable charges.

Note A: Where expenses applicable to materials purchased cannot be directly assigned to particular purchases, they may be charged to a stores expense clearing account (account 163, Stores Expense Undistributed, in the case of Major utilities), and distributed therefrom to the appropriate account.

Note B: When materials and supplies are purchased for immediate use, they need not be carried through this account but may be charged directly to the appropriate utility plant or expense account.

155 Merchandise (Major only).

This account shall include the book cost of materials and supplies and appliances and equipment held primarily for merchandising, jobbing and contract work. The principles prescribed in accounting for utility materials and supplies shall be observed in respect to items carried in this account.

156 Other materials and supplies (Major only).

This account shall include the book cost of materials and supplies held primarily for nonutility purposes. The principles prescribed in accounting for utility materials and supplies shall be observed in respect to items carried in this account.

157 Nuclear materials held for sale (Major only).

This account shall include the net salvage value of uranium, plutonium and other nuclear materials held by the company for sale or other disposition and that are not to be reused by the company in its electric utility operations. This account shall be debited and account 120.5, Accumulated Provision for Amortization of Nuclear Fuel Assemblies, credited for such net salvage value. Any difference between the amount recorded in this account and the actual amount realized from the sale of materials shall be debited or credited, as appropriate, to account 518, Nuclear Fuel Expense at the time of such sale.

158.1 Allowance inventory.

A. This account shall include the cost of allowances owned by the utility and not withheld by the Environmental Protection Agency. See General Instruction No. 21 and Account 158.2, Allowances Withheld.

B. This account shall be credited and Account 509, Allowances, shall be debited concurrent with the monthly emission of sulfur dioxide.

C. Separate subdivisions of this account shall be maintained so as to separately account for those allowances usable in the current year and in each subsequent year. The underlying records of these subdivisions shall be maintained in sufficient detail so as to identify each allowance included; the origin of each allowance; and the acquisition cost, if any, of the allowance.

158.2 Allowances withheld.

A. This account shall include the cost of allowances owned by the utility but withheld by the Environmental Protection Agency. (See General Instruction No. 21.)

B. The inventory cost of the allowances released by the Environmental Protection Agency for use by the utility shall be transferred to Account 158.1, Allowance Inventory.

C. The underlying records of this account shall be maintained in sufficient detail so as to identify each allowance included; the origin of each allowance; and the acquisition cost, if any, of the allowances.

163 Stores expense undistributed (Major only).

A. This account shall include the cost of supervision, labor and expenses incurred in the operation of general storerooms, including purchasing, storage, handling and distribution of materials and supplies.

B. This account shall be cleared by adding to the cost of materials and supplies issued a suitable loading charge which will distribute the expense equitably over stores issues. The balance in the account at the close of the year shall not exceed the amount of stores expenses reasonably attributable to the inventory of materials and supplies exclusive of fuel, as any amount applicable to fuel costs should be included in account 152, Fuel Stock Expenses Undistributed.

Items

Labor:

1. Inspecting and testing materials and supplies when not assignable to specific items.
2. Unloading from shipping facility and putting in storage.
3. Supervision of purchasing and stores department to extent assignable to materials handled through stores.

4. Getting materials from stock and in readiness to go out.
5. Inventorying stock received or stock on hand by stores employees but not including inventories by general department employees as part of internal or general audits.
6. Purchasing department activities in checking material needs, investigating sources of supply, analyzing prices, preparing and placing orders, and related activities to extent applicable to materials handled through stores. (Optional. Purchasing department expenses may be included in administrative and general expenses.)
7. Maintaining stores equipment.
8. Cleaning and tidying storerooms and stores offices.
9. Keeping stock records, including recording and posting of material receipts and issues and maintaining inventory record of stock.
10. Collecting and handling scrap materials in stores.

Supplies and expenses:

11. Adjustments of inventories of materials and supplies but not including large differences which can readily be assigned to important classes of materials and equitably distributed among the accounts to which such classes of materials have been charged since the previous inventory.
12. Cash and other discounts not practically assignable to specific materials.
13. Freight, express, etc., when not assignable to specific items.
14. Heat, light and power for storerooms and store offices.
15. Brooms, brushes, sweeping compounds and other supplies used in cleaning and tidying storerooms and stores offices.
16. Injuries and damages.
17. Insurance on materials and supplies and on stores equipment.
18. Losses due to breakage, leakage, evaporation, fire or other causes, less credits for amounts received from insurance, transportation companies or others in compensation of such losses.
19. Postage, printing, stationery and office supplies.
20. Rent of storage space and facilities.
21. Communication service.
22. Excise and other similar taxes not assignable to specific materials.
23. Transportation expense on inward movement of stores and on transfer between storerooms but not including charges on materials recovered from retirements which shall be accounted for as part of cost of removal.

Note: A physical inventory of each class of materials and supplies shall be made at least every two years.

165 Prepayments.

This account shall include amounts representing prepayments of insurance, rents, taxes, interest and miscellaneous items, and shall be kept or supported in such manner as to disclose the amount of each class of prepayment.

171 Interest and dividends receivable (Major only).

This account shall include the amount of interest on bonds, mortgages, notes, commercial paper, loans, open accounts, deposits, etc., the payment of which is reasonably assured, and the amount of dividends declared or guaranteed on stocks owned.

Note A: Interest which is not subject to current settlement shall not be included herein but in the account in which is carried the principal on which the interest is accrued.

Note B: Interest and dividends receivable from associated companies shall be included in account 146, Accounts receivable from associated companies.

172 Rents receivable (Major only).

This account shall include rents receivable or accrued on property rented or leased by the utility to others.

Note: Rents receivable from associated companies shall be included in account 146, Accounts Receivable from

Associated Companies.

173 Accrued utility revenues (Major only).

At the option of the utility, the estimated amount accrued for service rendered, but not billed at the end of any accounting period, may be included herein. In case accruals are made for unbilled revenues, they shall be made likewise for unbilled expenses, such as for the purchase of energy.

174 Miscellaneous current and accrued assets.

This account shall include the book cost of all other current and accrued assets, appropriately designated and supported so as to show the nature of each asset included herein.

175 Derivative instrument assets.

This account shall include the amounts paid for derivative instruments, and the change in the fair value of all derivative instrument assets not designated as cash flow or fair value hedges. Account 421, miscellaneous nonoperating income, shall be credited or debited, as appropriate, with the corresponding amount of the change in the fair value of the derivative instrument.

176 Derivative instrument assets—Hedges.

A. This account shall include the amounts paid for derivative instruments, and the change in the fair value of derivative instrument assets designated by the utility as cash flow or fair value hedges.

B. When a utility designates a derivative instrument asset as a cash flow hedge it will record the change in the fair value of the derivative instrument in this account with a concurrent charge to account 219, accumulated other comprehensive income, with the effective portion of the gain or loss. The ineffective portion of the cash flow hedge shall be charged to the same income or expense account that will be used when the hedged item enters into the determination of net income.

C. When a utility designates a derivative instrument as a fair value hedge it shall record the change in the fair value of the derivative instrument in this account with a concurrent charge to a subaccount of the asset or liability that carries the item being hedged. The ineffective portion of the fair value hedge shall be charged to the same income or expense account that will be used when the hedged item enters into the determination of net income.

181 Unamortized debt expense.

This account shall include expenses related to the issuance or assumption of debt securities. Amounts recorded in this account shall be amortized over the life of each respective issue under a plan which will distribute the amount equitably over the life of the security. The amortization shall be on a monthly basis, and the amounts thereof shall be charged to account 428, Amortization of Debt Discount and Expense. Any unamortized amounts outstanding at the time that the related debt is prematurely reacquired shall be accounted for as indicated in General Instruction 17.

182.1 Extraordinary property losses.

A. When authorized or directed by the Commission, this account shall include extraordinary losses, which could not reasonably have been anticipated and which are not covered by insurance or other provisions, such as unforeseen damages to property.

B. Application to the Commission for permission to use this account shall be accompanied by a statement giving a complete explanation with respect to the items which it is proposed to include herein, the period over which, and the accounts to which it is proposed to write off the charges, and other pertinent information.

182.2 Unrecovered plant and regulatory study costs.

A. This account shall include: (1) Nonrecurring costs of studies and analyses mandated by regulatory bodies related to plants in service, transferred from account 183, Preliminary Survey and Investigation Charges, and not resulting in construction; and (2) when authorized by the Commission, significant unrecovered costs of plant facilities where construction has been cancelled or which have been prematurely retired.

B. This account shall be credited and account 407, Amortization of Property Losses, Unrecovered Plant and Regulatory Study Costs, shall be debited over the period specified by the Commission.

C. Any additional costs incurred, relative to the cancellation or premature retirement, may be included in this account and amortized over the remaining period of the original amortization period. Should any gains or recoveries be realized relative to the cancelled or prematurely retired plant, such amounts shall be used to reduce the unamortized amount of the costs recorded herein.

D. In the event that the recovery of costs included herein is disallowed in the rate proceedings, the disallowed costs shall be charged to account 426.5, Other Deductions, or account 435, Extraordinary Deductions, in the year of such disallowance.

182.3 Other regulatory assets.

A. This account shall include the amounts of regulatory-created assets, not includible in other accounts, resulting from the ratemaking actions of regulatory agencies. (See Definition No. 30.)

B. The amounts included in this account are to be established by those charges which would have been included in net income, or accumulated other comprehensive income, determinations in the current period under the general requirements of the Uniform System of Accounts but for it being probable that such items will be included in a different period(s) for purposes of developing rates that the utility is authorized to charge for its utility services. When specific identification of the particular source of a regulatory asset cannot be made, such as in plant phase-ins, rate moderation plans, or rate levelization plans, account 407.4, regulatory credits, shall be credited. The amounts recorded in this account are generally to be charged, concurrently with the recovery of the amounts in rates, to the same account that would have been charged if included in income when incurred, except all regulatory assets established through the use of account 407.4 shall be charged to account 407.3, regulatory debits, concurrent with the recovery in rates.

C. If rate recovery of all or part of an amount included in this account is disallowed, the disallowed amount shall be charged to Account 426.5, Other Deductions, or Account 435, Extraordinary Deductions, in the year of the disallowance.

D. The records supporting the entries to this account shall be kept so that the utility can furnish full information as to the nature and amount of each regulatory asset included in this account, including justification for inclusion of such amounts in this account.

183 Preliminary survey and investigation charges (Major only).

A. This account shall be charged with all expenditures for preliminary surveys, plans, investigations, etc., made for the purpose of determining the feasibility of utility projects under contemplation. If construction results, this account shall be credited and the appropriate utility plant account charged. If the work is abandoned, the charge shall be made to account 426.5, Other Deductions, or to the appropriate operating expense account.

B. This account shall also include costs of studies and analyses mandated by regulatory bodies related to plant in service. If construction results from such studies, this account shall be credited and the appropriate utility plant account charged with an equitable portion of such study costs directly attributable to new construction. The portion of such study costs not attributable to new construction or the entire cost if construction does not result shall be charged to account 182.2, Unrecovered Plant and Regulatory Costs, or the appropriate operating expense account. The costs of such studies relative to plant under construction shall be included directly in account 107, Construction Work in Progress-Electric.

C. The records supporting the entries to this account shall be so kept that the utility can furnish complete information as to the nature and the purpose of the survey, plans, or investigations and the nature and amounts of the several charges.

Note: The amount of preliminary survey and investigation charges transferred to utility plant shall not exceed the expenditures which may reasonably be determined to contribute directly and immediately and without duplication to utility plant.

184 Clearing accounts (Major only).

This caption shall include undistributed balances in clearing accounts at the date of the balance sheet. Balances in clearing accounts shall be substantially cleared not later than the end of the calendar year unless items held therein relate to a future period.

185 Temporary facilities (Major only).

This account shall include amounts shown by work orders for plant installed for temporary use in utility service for periods of less than one year. Such work orders shall be charged with the cost of temporary facilities and credited with payments received from customers and net salvage realized on removal of the temporary facilities. Any net credit or debit resulting shall be cleared to account 451, Miscellaneous Service Revenues.

186 Miscellaneous deferred debits.

A. For Major utilities, this account shall include all debits not elsewhere provided for, such as miscellaneous work in progress, and unusual or extraordinary expenses, not included in other accounts, which are in process of amortization and items the proper final disposition of which is uncertain.

B. For Nonmajor utilities, this account shall include the following classes of items:

(1) Expenditures for preliminary surveys, plans, investigations, etc., made for the purpose of determining the feasibility of utility projects under contemplation. If construction results, this account shall be credited with the amount applicable thereto and the appropriate plant accounts shall be charged with an amount which does not exceed the expenditures which may reasonably be determined to contribute directly and immediately and without duplication to plant. If the work is abandoned, the charge shall be to account 426.5, Other Deductions, or to the appropriate operating expense accounts.

(2) Undistributed balances in clearing accounts at the date of the balance sheet. Balances in clearing accounts shall be substantially cleared not later than the end of the calendar year unless items held therein related to a future period.

(3) Balances representing expenditures for work in progress other than on utility plant. This includes jobbing and contract work in progress.

(4) Other debit balances, the proper final disposition of which is uncertain and unusual or extraordinary expenses not included in other accounts, which are in process of being written off.

C. For both Major and Nonmajor utilities, the records supporting the entries to this account shall be so kept that the utility can furnish full information as to each deferred debit included herein.

187 Deferred losses from disposition of utility plant.

This account shall include losses from the sale or other disposition of property previously recorded in account 105, Electric Plant held for Future Use, under the provisions of paragraphs B, C, and D thereof, where such losses are significant and are to be amortized over a period of 5 years, unless otherwise authorized by the Commission. The amortization of the amounts in this account shall be made by debits to account 411.7, Losses from Disposition of Utility Plant. (See account 105, Electric Plant Held for Future Use.)

188 Research, development and demonstration expenditures (Major only).

A. This account shall be charged with the cost of all expenditures coming within the meaning of Research, Development and Demonstration (RD & D) of this uniform system of accounts (see definition 27.B.), except those expenditures properly chargeable to account 107, Construction Work in Progress—Electric.

B. Costs that are minor or of a general or recurring nature shall be transferred from this account to the appropriate operating expense function or if such costs are common to the overall operations or cannot be feasibly allocated to the various operating accounts, then such costs shall be recorded in account 930.2, Miscellaneous General Expenses.

C. In certain instances a company may incur large and significant research, development, and demonstration expenditures which are nonrecurring and which would distort the annual research, development, and demonstration charges for the period. In such a case the portion of such amounts that cause the distortion may be amortized to the appropriate operating expense account over a period not to exceed 5 years unless otherwise authorized by the Commission.

D. The entries in this account must be so maintained as to show separately each project along with complete detail of the nature and purpose of the research, development, and demonstration project together with the related costs.

189 Unamortized loss on reacquired debt.

This account shall include the losses on long-term debt reacquired or redeemed. The amounts in this account shall be amortized in accordance with General Instruction 17.

190 Accumulated deferred income taxes.

A. This account shall be debited and account 411.1, Provision for Deferred Income Taxes—Credit, Utility Operating Income, or account 411.2, Provision for Deferred Income Taxes—Credit, Other Income and Deductions, as appropriate, shall be credited with an amount equal to that by which income taxes payable for the year are higher because of the inclusion of certain items in income for tax purposes, which items for general accounting purposes will not be fully reflected in the utility's determination of annual net income until subsequent years.

B. This account shall be credited and account 410.1, Provision for Deferred Income Taxes, Utility Operating Income, or account 410.2, Provision for Deferred Income Taxes, Other Income and Deductions, as appropriate, shall be debited with an amount equal to that by which income taxes payable for the year are lower because of prior payment of taxes as provided by paragraph A above, because of difference in timing for tax purposes of particular items of income or income deductions from that recognized by the utility for general accounting purposes. Such credit to this account and debit to account 410.1 or 410.2 shall, in general, represent the effect on taxes payable in the current year of the smaller amount of book income recognized for tax purposes as compared to the amount recognized in the utility's current accounts with respect to the item or class of items for which deferred tax accounting by the utility was authorized by the Commission.

C. Vintage year records with respect to entries to this account, as described above, and the account balance, shall be so maintained as to show the factor of calculation with respect to each annual amount of the item or class of items for which deferred tax accounting by the utility is utilized.

D. The utility is restricted in its use of this account to the purpose set forth above. It shall not make use of the balance in this account or any portion thereof except as provided in the text of this account, without prior approval of the Commission. Any remaining deferred tax account balance with respect to an amount for any prior year's tax deferral, the amortization of which or other recognition in the utility's income accounts has been completed, or other disposition made, shall be debited to account 410.1, Provision for Deferred Income Taxes, Utility Operating Income, or account 410.2, Provision for Deferred Income Taxes, Other Income and Deductions, as appropriate, or otherwise disposed of as the Commission may authorize or direct. (See General Instruction 18.)

201 Common stock issued.

202 Common stock subscribed (Major only).

203 Common stock liability for conversion (Major only).

204 Preferred stock issued.

A. These accounts shall include the par value or the stated value of stock without par value if such stock has a stated value, and, if not, the cash value of the consideration received for such nonpar stock, of each class of capital stock actually issued, including the par or stated value of such capital stock in account 124, Other Investments, and account 217, Reacquired Capital Stock.

B. When the actual cash value of the consideration received is more or less than the par or stated value of any stock having a par or stated value, the difference shall be credited or debited, as the case may be, to the premium or discount account for the particular class and series.

C. When capital stock is retired, these accounts shall be charged with the amount at which such stock is carried herein.

D. A separate ledger account, with a descriptive title, shall be maintained for each class and series of stock. The supporting records shall show the shares nominally issued, actually issued, and nominally outstanding.

Note: When a levy or assessment, except a call for payment on subscriptions, is made against holders of capital stock, the amount collected upon such levy or assessment shall be credited to account 207, Premium on Capital Stock (for Nonmajor utilities, account 211, Miscellaneous Paid-In Capital), provided, however, that the credit shall be made to account 213, Discount on Capital Stock, to the extent of any remaining balance of discount on the issue of stock.

205 Preferred stock subscribed (Major only).

A. These accounts shall include the amount of legally enforceable subscriptions to capital stock of the utility. They shall be credited with the par or stated value of the stock subscribed, exclusive of accrued dividends, if any. Concurrently, a debit shall be made to subscriptions to capital stock, included as a separate subdivision of account 143, Other Accounts Receivable, for the agreed price, and any discount or premium shall be debited or credited to the appropriate discount or premium account. When properly executed stock certificates have been issued representing the shares subscribed, this account shall be debited, and the appropriate capital stock account credited, with the par or stated value of such stock.

B. The records shall be kept in such manner as to show the amount of subscriptions to each class and series of stock.

206 Preferred stock liability for conversion (Major only).

A. These accounts shall include the par value or stated value, as appropriate, of capital stock which the utility has agreed to exchange for outstanding securities of other companies in connection with the acquisition of properties of such companies under terms which allow the holders of the securities of the other companies to surrender such securities and receive in return therefor capital stock of the accounting utility.

B. When the securities of the other companies have been surrendered and capital stock issued in accordance with the terms of the exchange, these accounts shall be charged and accounts 201, Common Stock Issued, or 204, Preferred Stock Issued, as the case may be, shall be credited.

C. The records shall be kept so as to show separately the stocks of each class and series for which a conversion liability exists.

207 Premium on capital stock (Major only).

A. This account shall include, in a separate subdivision for each class and series of stock, the excess of the actual cash value of the consideration received on original issues of capital stock over the par or stated value and accrued dividends of such stock, together with assessments against stockholders representing payments required in excess of par or stated values.

B. Premium on capital stock shall not be set off against expenses. Further, a premium received on an issue of a certain class or series of stock shall not be set off against expenses of another issue of the same class or series.

C. When capital stock which has been actually issued is retired, the amount in this account applicable to the shares retired shall be transferred to account 210, Gain on Resale or Cancellation of Reacquired Capital Stock.

208 Donations received from stockholders (Major only).

This account shall include the balance of credits for donations received from stockholders consisting of capital stock of the utility, cancellation or reduction of debt of the utility, and the cash value of other assets received as a donation.

209 Reduction in par or stated value of capital stock (Major only).

This account shall include the balance of credits arising from a reduction in the par or stated value of capital stock.

210 Gain on resale or cancellation of reacquired capital stock (Major only).

This account shall include the balance of credits arising from the resale or cancellation of reacquired capital stock. (See account 217. Reacquired Capital Stock.)

211 Miscellaneous paid-in capital.

This account shall include the balance of all other credits for paid-in capital which are not properly includible in the foregoing accounts. This account may include all commissions and expenses incurred in connection with the issuance of capital stock. (In the case of Nonmajor companies, this account shall be kept so as to show the source of the credits includible herein.)

Items (Nonmajor only)

1. Premium received on original issues of capital stock.
2. Donations received from stockholders or reduction of debt of the utility, and the cash value of other assets received as a donation.
3. Reduction in part or stated value of capital stock.
4. Gain on resale or cancellation of reacquired capital stock.

Note A: (Major utilities) Amounts included in capital surplus at the effective date of this system of accounts which cannot be classified as to the source thereof shall be included in this account.

Note B: (Nonmajor utilities) Premium on capital stock shall not be set off against expenses. Further, a premium received on an issue of a certain class or series of stock shall not be set off against expense of another issue of the same class or series.

212 Installments received on capital stock.

A. This account shall include in a separate subdivision for each class and series of capital stock the amount of installments received on capital stock on a partial or installment payment plan from subscribers who are not bound by legally enforceable subscription contracts.

B. As subscriptions are paid in full and certificates issued, this account shall be charged and the appropriate capital stock account credited with the par or stated value of such stock. Any discount or premium on an original issue shall be included in the appropriate discount or premium account.

213 Discount on capital stock.

A. This account shall include in a separate subdivision for each class and series of capital stock all discount on the original issuance and sale of capital stock, including additional capital stock of a particular class or series as well as first issues.

B. When capital stock which has been actually issued is retired, the amount in this account applicable to the shares retired shall be written off to account 210, Gain on Resale or Cancellation of Reacquired Capital Stock, provided, however, that the amount shall be charged to account 439, Adjustments to Retained Earnings, to the extent that it exceeds the balance in account 210.

214 Capital stock expense.

A. This account shall include in a separate subdivision for each class and series of stock all commissions and expenses incurred in connection with the original issuance and sale of capital stock, including additional capital stock of a particular class or series as well as first issues. Expenses applicable to capital stock shall not be deducted from premium on capital stock.

B. When capital stock which has been actually issued by the utility is retired the amount in this account, applicable to the shares retired shall be written off to account 210, Gain on Resale or Cancellation of Reacquired Capital Stock, provided, however, that the amount shall be charged to account 439, Adjustments to Retained Earnings, to the extent that it exceeds the balance in account 210.

Note A: Expenses in connection with the reacquisition or resale of the utility's capital stock shall not be included herein.

Note B: The utility may write off capital stock expense in whole or in part by charges to account 211, Miscellaneous Paid-in Capital.

215 Appropriated retained earnings.

This account shall include the amount of retained earnings which has been appropriated or set aside for specific purposes. Separate subaccounts shall be maintained under such titles as will designate the purpose for which each appropriation was made.

215.1 Appropriated retained earnings—Amortization reserve, Federal.

A. This account shall be credited with such amounts as are appropriated by a licensee from account 216, Unappropriated Retained Earnings, for amortization reserve purposes in accordance with the requirements of a hydroelectric project license.

B. This account shall be debited with only such items or amounts as the Commission may require or approve. (See account 127, Amortization Fund—Federal.)

216 Unappropriated retained earnings.

This account shall include the balances, either debit or credit, of unappropriated retained earnings arising from earnings of the utility. This account shall not include any amounts representing the undistributed earnings of subsidiary companies.

216.1 Unappropriated undistributed subsidiary earnings (Major only).

This account shall include the balances, either debit or credit, of undistributed retained earnings of subsidiary companies since their acquisition. When dividends are received from subsidiary companies relating to amounts included in this account, this account shall be debited and account 216, "Unappropriated Retained Earnings," credited.

217 Reacquired capital stock.

A. This account shall include in a separate subdivision for each class and series of capital stock, the cost of capital stock actually issued by the utility and reacquired by it and not retired or canceled, except, however, stock which is held by trustees in sinking or other funds.

B. When reacquired capital stock is retired or canceled, the difference between its cost, including commissions and expenses paid in connection with the reacquisition, and its par or stated value plus any premium and less any discount and expenses applicable to the shares retired, shall be debited or credited, as appropriate, to account 210, Gain on Resale or Cancellation of Reacquired Capital Stock, provided, however, that debits shall be charged to account 439, Adjustments to Retained Earnings, to the extent that they exceed the balance in account 210.

C. When reacquired capital stock is resold by the utility, the difference between the amount received on the resale of the stock, less expenses incurred in the resale, and the cost of the stock included in this account shall be accounted for as outlined in paragraph B.

Note A: See account 124, Other Investments, for permissive accounting treatment of stock reacquired under a definite plan for resale.

Note B: The accounting for reacquired stock shall be as prescribed herein unless otherwise specifically required by statute.

218 Noncorporate proprietorship (Nonmajor only).

This account shall include the investment in an unincorporated utility by the proprietor thereof, and shall be charged with all withdrawals from the business by its proprietor. At the end of each calendar year the net income for the year, as developed in the income account, shall be transferred to this account. (See optional accounting procedure provided in Note C, hereunder.)

Note A: Amounts payable to the proprietor as just and reasonable compensation for services performed shall not be charged to this account but to appropriate operating expense or other accounts.

Note B: When the utility is owned by a partnership, a separate account shall be kept to show the net equity of each member therein and the transactions affecting the interest of each such partner.

Note C: This account may be restricted to the amount considered by the proprietor to be the permanent investment in the business, subject to change only by additional investment by the proprietor or the withdrawal of portions thereof not representing net income. When this option is taken, the retained earnings accounts shall be maintained and entries thereto shall be made in accordance with the texts thereof.

219 Accumulated other comprehensive income.

A. This account shall include revenues, expenses, gains, and losses that are properly includable in other comprehensive income during the period. Examples of other comprehensive income include foreign currency items, minimum pension liability adjustments, unrealized gains and losses on certain investments in debt and equity securities, and cash flow hedges. Records supporting the entries to this account shall be maintained so that the utility can furnish the amount of other comprehensive income for each item included in this account.

B. This account shall also be debited or credited, as appropriate, with amounts of accumulated other comprehensive income that have been included in the determination of net income during the period and in accumulated other comprehensive income in prior periods. Separate records for each category of items shall be maintained to identify the amount of the reclassification adjustments from accumulated other comprehensive income to earnings made during the period.

221 Bonds.

This account shall include in a separate subdivision for each class and series of bonds the face value of the actually issued and unmatured bonds which have not been retired or canceled; also the face value of such bonds issued by others the payment of which has been assumed by the utility.

222 Reacquired bonds (Major only).

A. This account shall include the face value of bonds actually issued or assumed by the utility and reacquired by it and not retired or canceled. The account for reacquired debt shall not include securities which are held by trustees in sinking or other funds.

B. When bonds are reacquired, the difference between face value, adjusted for unamortized discount, expenses or premium, and the amount paid upon reacquisition, shall be included in account 189, Unamortized Loss on Reacquired Debt, or account 257, Unamortized Gain on Reacquired Debt, as appropriate. (See General Instruction 17.)

223 Advances from associated companies.

A. This account shall include the face value of notes payable to associated companies and the amount of open book accounts representing advances from associated companies. It does not include notes and open accounts representing indebtedness subject to current settlement which are includible in account 233, Notes Payable to Associated Companies, or account 234, Accounts Payable to Associated Companies.

B. The records supporting the entries to this account shall be so kept that the utility can furnish complete information concerning each note and open account.

224 Other long-term debt.

A. This account shall include, until maturity all long-term debt not otherwise provided for. This covers such items as receivers' certificates, real estate mortgages executed or assumed, assessments for public improvements, notes and unsecured certificates of indebtedness not owned by associated companies, receipts outstanding for long-term debt, and other obligations maturing more than one year from date of issue or assumption.

B. Separate accounts shall be maintained for each class of obligation, and records shall be maintained to show for each class all details as to date of obligation, date of maturity, interest dates and rates, security for the obligation, etc.

Note: Miscellaneous long-term debt reacquired shall be accounted for in accordance with the procedure set forth in account 222, Reacquired Bonds.

225 Unamortized premium on long-term debt.

A. This account shall include the excess of the cash value of consideration received over the face value upon the issuance or assumption of long-term debt securities.

B. Amounts recorded in this account shall be amortized over the life of each respective issue under a plan which will distribute the amount equitably over the life of the security. The amortization shall be on a monthly basis, with the amounts thereof to be credited to account 429, Amortization of Premium on Debt—Credit. (See General Instruction 17.)

226 Unamortized discount on long-term debt—Debit.

A. This account shall include the excess of the face value of long-term debt securities over the cash value of consideration received therefor, related to the issue or assumption of all types and classes of debt.

B. Amounts recorded in this account shall be amortized over the life of the respective issues under a plan which will distribute the amount equitably over the life of the securities. The amortization shall be on a monthly basis, with the amounts thereof charged to account 428, Amortization of Debt Discount and Expense. (See General Instruction 17.)

Special Instructions for Current and Accrued Liabilities. Current and accrued liabilities are those obligations which have either matured or which become due within one year from the date thereof: except, however, bonds, receivers' certificates and similar obligations which shall be classified as long-term debt until date of maturity; accrued taxes, such as income taxes, which shall be classified as accrued liabilities even though payable more than one year from date; compensation awards, which shall be classified as current liabilities regardless of date due; and minor amounts payable in installments which may be classified as current liabilities. If a liability is due more than one year from date of issuance or assumption by the utility, it shall be credited to a long-term debt account appropriate for the transaction, except, however, the current liabilities previously mentioned.

227 Obligations under capital lease—noncurrent.

This account shall include the portion not due within one year, of the obligations recorded for the amounts applicable to leased property recorded as assets in account 101.1, Property under Capital Leases, account 120.6, Nuclear Fuel under Capital Leases, or account 121, Nonutility Property.

Special Instructions to Accounts 228.1 Through 228.4

No amounts shall be credited to these accounts unless authorized by a regulatory authority or authorities to be collected in a utility's rate levels.

228.1 Accumulated provision for property insurance.

A. This account shall include amounts reserved by the utility for losses through accident, fire, flood, or other hazards to its own property or property leased from others, not covered by insurance. The amounts charged to account 924, Property Insurance, or other appropriate accounts to cover such risks shall be credited to this account. A schedule of risks covered shall be maintained, giving a description of the property involved, the character of the risks covered and the rates used.

B. Charges shall be made to this account for losses covered, not to exceed the account balance. Details of these charges shall be maintained according to the year the casualty occurred which gave rise to the loss.

228.2 Accumulated provision for injuries and damages.

A. This account shall be credited with amounts charged to account 925, Injuries and Damages, or other appropriate accounts, to meet the probable liability, not covered by insurance, for deaths or injuries to employees and others and for damages to property neither owned nor held under lease by the utility.

B. When liability for any injury or damage is admitted by the utility either voluntarily or because of the decision of a court or other lawful authority, such as a workmen's compensation board, the admitted liability shall be charged to this account and credited to the appropriate current liability account. Details of these charges shall be maintained according to the year the casualty occurred which gave rise to the loss.

Note: Recoveries or reimbursements for losses charged to this account shall be credited hereto; the cost of repairs to property of others if provided for herein shall be charged to this account.

228.3 Accumulated provision for pensions and benefits.

A. This account shall include provisions made by the utility and amounts contributed by employees for pensions, accident and death benefits, savings, relief, hospital and other provident purposes, where the funds are included in the assets of the utility either in general or in segregated fund accounts.

B. Amounts paid by the utility for the purposes for which this liability is established shall be charged hereto.

C. A separate account shall be kept for each kind of provision included herein.

Note: If employee pension or benefit plan funds are not included among the assets of the utility but are held by outside trustees, payments into such funds, or accruals therefor, shall not be included in this account.

228.4 Accumulated miscellaneous operating provisions.

A. This account shall include all operating provisions which are not provided for elsewhere.

B. This account shall be maintained in such manner as to show the amount of each separate provision and the nature and amounts of the debits and credits thereto.

Note: This account includes only provisions as may be created for operating purposes and does not include any reservations of income the credits for which should be carried in account 215, Appropriated Retained Earnings.

229 Accumulated provision for rate refunds.

A. This account shall be credited with amounts charged to Account 449.1, Provisions for Rate Refunds, to provide for estimated refunds where the utility is collecting amounts in rates subject to refund.

B. When refund of any amount recorded in this account is ordered by a regulatory authority, such amount shall be changed hereto and credited to account 242, Miscellaneous Current and Accrued Liabilities.

C. Records supporting the entries to this account shall be kept so as to identify each amount recorded by the respective rate filing docket number.

230 Asset retirement obligations.

A. This account shall include the amount of liabilities for the recognition of asset retirement obligations related to electric utility plant and nonutility plant that gives rise to the obligations. This account shall be credited for the amount of the liabilities for asset retirement obligations with amounts charged to the appropriate electric utility plant accounts or nonutility plant account to record the related asset retirement costs.

B. The utility shall charge the accretion expense to account 411.10, Accretion expense, for electric utility plant, account 413, Expenses of electric plant leased to others, for electric plant leased to others, or account 421, Miscellaneous nonoperating income, for nonutility plant, as appropriate, and credit account 230, Asset retirement obligations.

C. This account shall be debited with amounts paid to settle the asset retirement obligations recorded herein.

D. The utility shall clear from this account any gains or losses resulting from the settlement of asset retirement obligations in accordance with the instructions prescribed in General Instruction 25.

231 Notes payable.

This account shall include the face value of all notes, drafts, acceptances, or other similar evidences of indebtedness, payable on demand or within a time not exceeding one year from date of issue, to other than associated companies.

232 Accounts payable.

This account shall include all amounts payable by the utility within one year, which are not provided for in other accounts.

233 Notes payable to associated companies.

234 Accounts payable to associated companies.

These accounts shall include amounts owing to associated companies on notes, drafts, acceptances, or other similar evidences of indebtedness, and open accounts payable on demand or not more than one year from date of issue or creation.

Note: Exclude from these accounts notes and accounts which are includible in account 223, Advances from Associated Companies.

235 Customer deposits.

This account shall include all amounts deposited with the utility by customers as security for the payment of bills.

236 Taxes accrued.

A. This account shall be credited with the amount of taxes accrued during the accounting period, corresponding debits being made to the appropriate accounts for tax charges. Such credits may be based upon estimates, but from time to time during the year as the facts become known, the amount of the periodic credits shall be adjusted so as to include as nearly as can be determined in each

year the taxes applicable thereto. Any amount representing a prepayment of taxes applicable to the period subsequent to the date of the balance sheet, shall be shown under account 165, Prepayments.

B. If accruals for taxes are found to be insufficient or excessive, correction therefor shall be made through current tax accruals.

C. Accruals for taxes shall be based upon the net amounts payable after credit for any discounts, and shall not include any amounts for interest on tax deficiencies or refunds. Interest received on refunds shall be credited to account 419, Interest and Dividend Income, and interest paid on deficiencies shall be charged to account 431, Other Interest Expense.

D. The records supporting the entries to this account shall be kept so as to show for each class of taxes, the amount accrued, the basis for the accrual, the accounts to which charged, and the amount of tax paid.

237 Interest accrued.

This account shall include the amount of interest accrued but not matured on all liabilities of the utility not including, however, interest which is added to the principal of the debt on which incurred. Supporting records shall be maintained so as to show the amount of interest accrued on each obligation.

238 Dividends declared (Major only).

This account shall include the amount of dividends which have been declared but not paid. Dividends shall be credited to this account when they become a liability.

239 Matured long-term debt (Major only).

This account shall include the amount of long-term debt (including any obligation for premiums) matured and unpaid, without specific agreement for extension of the time of payment and bonds called for redemption but not presented.

240 Matured interest (Major only).

This account shall include the amount of matured interest on long-term debt or other obligations of the utility at the date of the balance sheet unless such interest is added to the principal of the debt on which incurred.

241 Tax collections payable (Major only).

This account shall include the amount of taxes collected by the utility through payroll deductions or otherwise pending transmittal of such taxes to the proper taxing authority.

Note: Do not include liability for taxes assessed directly against the utility which are accounted for as part of the utility's own tax expense.

242 Miscellaneous current and accrued liabilities.

This account shall include the amount of all other current and accrued liabilities not provided for elsewhere appropriately designated and supported so as to show the nature of each liability.

Items (Nonmajor only)

1. Dividends declared but not paid.
2. Matured long-term debt.
3. Matured interest.
4. Taxes collected through payroll deductions or otherwise pending transmittal to the proper taxing authority.

243 Obligations under capital leases—current.

This account shall include the portion, due within one year, of the obligations recorded for the amounts applicable to leased property recorded as assets in account 101.1, Property under Capital Leases, account 120.6, Nuclear Fuel under Capital Leases (Major only), or account 121, Nonutility Property.

244 Derivative instrument liabilities.

This account shall include the change in the fair value of all derivative instrument liabilities not designated as cash flow or fair value hedges. Account 426, other deductions, shall be debited or credited as appropriate with the corresponding amount of the change in the fair value of the derivative instrument.

245 Derivative instrument liabilities-Hedges.

A. This account shall include the change in the fair value of derivative instrument liabilities designated by the utility as cash flow or fair value hedges.

B. A utility shall record the change in the fair value of a derivative instrument liability related to a cash flow hedge in this account, with a concurrent charge to account 219, accumulated other comprehensive income, with the effective portion of the derivative's gain or loss. The ineffective portion of the cash flow hedge shall be charged to the same income or expense account that will be used when the hedged item enters into the determination of net income.

C. A utility shall record the change in the fair value of a derivative instrument liability related to a fair value hedge in this account, with a concurrent charge to a subaccount of the asset or liability that carries the item being hedged. The ineffective portion of the fair value hedge shall be charged to the same income or expense account that will be used when the hedged item enters into the determination of net income.

251 [Reserved]

252 Customer advances for construction.

This account shall include advances by customers for construction which are to be refunded either wholly or in part. When a customer is refunded the entire amount to which he is entitled, according to the agreement or rule under which the advance was made, the balance, if any, remaining in this account shall be credited to the respective plant account.

253 Other deferred credits.

This account shall include advance billings and receipts and other deferred credit items, not provided for elsewhere, including amounts which cannot be entirely cleared or disposed of until additional information has been received.

254 Other regulatory liabilities.

A. This account shall include the amounts of regulatory liabilities, not includible in other accounts, imposed on the utility by the ratemaking actions of regulatory agencies. (See Definition No. 30.)

B. The amounts included in this account are to be established by those credits which would have been included in net income, or accumulated other comprehensive income, determinations in the current period under the general requirements of the Uniform System of Accounts but for it being probable that: Such items will be included in a different period(s) for purposes of developing the rates that the utility is authorized to charge for its utility services; or refunds to customers, not provided for in other accounts, will be required. When specific identification of the particular source of the regulatory liability cannot be made or when the liability arises from revenues collected pursuant to tariffs on file at a regulatory agency, account 407.3, regulatory debits, shall be debited. The amounts recorded in this account generally are to be credited to the same account that would have been credited if included in income when earned except: All regulatory liabilities established through the use of account 407.3 shall be credited to account 407.4, regulatory credits; and in the case of refunds, a cash account or other appropriate account should be credited when the obligation is satisfied.

C. If it is later determined that the amounts recorded in this account will not be returned to customers through rates or refunds, such amounts shall be credited to Account 421, Miscellaneous Nonoperating Income, or Account 434, Extraordinary Income, as appropriate, in the year such determination is made.

D. The records supporting the entries to this account shall be so kept that the utility can furnish full information as to the nature and amount of each regulatory liability included in this account, including justification for inclusion of such amounts in this account.

255 Accumulated deferred investment tax credits.

A. This account shall be credited with all investment tax credits deferred by companies which have elected to follow deferral accounting, partial or full, rather than recognizing in the income statement the total benefits of the tax credit as realized. After such election, a company may not transfer amounts from this account, except as authorized herein and in accounts 411.4, Investment Tax Credit Adjustments, Utility Operations, 411.5, Investment Tax Credit Adjustments, Nonutility Operations, and 420, Investment Tax Credits, or with approval of the Commission.

B. Where the company's accounting provides that investment tax credits are to be passed on to customers, this account shall be debited and account 411.4 credited with a proportionate amount determined in relation to the average useful life of electric utility property to which the tax credits relate or such lesser period of time as allowed by a regulatory agency having rate jurisdiction. If, however, the deferral procedure provides that investment tax credits are not to be passed on to customers, the proportionate restorations to income shall be credited to account 420.

C. Subdivisions of this account by department shall be maintained for deferred investment tax credits that are related to nonelectric utility or other operations. Contra entries affecting such account subdivisions shall be appropriately recorded in account 413, Expenses of Electric Plant Leased to Others; or account 414, Other Utility Operating Income. Use of deferral or nondeferral accounting procedures adopted for nonelectric utility or other operations are to be followed on a consistent basis.

D. Separate records for electric and nonelectric utility or other operations shall be maintained identifying the properties giving rise to the investment tax credits for each year with the weighted-average service life of such properties and any unused balances of such credits. Such records are not necessary unless the tax credits are deferred.

256 Deferred gains from disposition of utility plant.

This account shall include gains from the sale or other disposition of property previously recorded in account 105, Electric Plant Held for Future Use, under the provisions of paragraphs B, C, and D thereof, where such gains are significant and are to be amortized over a period of 5 years, unless otherwise authorized by the Commission. The amortization of the amounts in this account shall be made by credits to account 411.6, Gains from Disposition of Utility Plant. (See account 105, Electric Plant Held for Future Use.)

257 Unamortized gain on reacquired debt.

This account shall include the amounts of discount realized upon reacquisition or redemption of long-term debt. The amounts in this account shall be amortized in accordance with General Instruction 17.

Special Instructions

Accumulated Deferred Income Taxes

Before using the deferred tax accounts provided below refer to General Instruction 18. *Comprehensive Interperiod Income Tax Allocation*.

The text of these accounts are designed primarily to cover deferrals of Federal income taxes. However, they are also to be used when making deferrals of state and local income taxes. Public utilities and licensees which, in addition to an electric utility department, have another utility department, gas, water, etc., and nonutility property and which have deferred taxes on income with respect thereto shall separately classify such deferrals in the accounts provided below so as to allow ready identification of items relating to each utility Deductions.

281 Accumulated deferred income taxes—Accelerated amortization property.

A. This account shall include tax deferrals resulting from adoption of the principles of comprehensive interperiod tax allocation described in General Instruction 18 of this system of accounts that relate to property for which the utility has availed itself of the use of accelerated (5-year) amortization of (1) certified defense facilities as permitted by Section 168 of the Internal Revenue Code and (2) certified pollution control facilities as permitted by Section 169 of the Internal Revenue Code.

B. This account shall be credited and accounts 410.1, Provision for Deferred Income Taxes, Utility Operating Income, or 410.2, Provision for Deferred Income Taxes, Other Income and Deductions, as appropriate, shall be debited with tax effects related to property described in paragraph A above where taxable income is lower than pretax accounting income due to differences between the periods in which revenue and expense transactions affect taxable income and the periods in which they enter into the determination of pretax accounting income.

C. This account shall be debited and accounts 411.1, Provision for Deferred Income Taxes—Credit, Utility Operating Income, or 411.2, Provision for Deferred Income Taxes—Credit, Other Income and Deductions, as appropriate, shall be credited with tax effects related to property described in paragraph A above where taxable income is higher than pretax accounting income due to differences between the periods in which revenue and expense transactions affect taxable income and the periods in which they enter into the determination of pretax accounting income.

D. The utility is restricted in its use of this account to the purposes set forth above. It shall not transfer the balance in this account or any portion thereof to retained earnings or make any use thereof except as provided in the text of this account without prior approval of the Commission. Upon the disposition by sale exchange, transfer, abandonment or premature retirement of plant on which there is a related balance herein, this account shall be charged with an amount equal to the related income tax expense, if any, arising from such disposition and account 411.1, Provision for Deferred Income Taxes—Credit, Utility Operating Income, or 411.2, Provision for Deferred Income Taxes—Credit, Other Income and Deductions, as appropriate, shall be credited. When the remaining balance, after consideration of any related income tax expense, is less than \$25,000, this account shall be charged and account 411.1 or 411.2, as appropriate, credited with such balance. If after consideration of any related income tax expense, there is a remaining amount of \$25,000 or more, the Commission shall authorize or direct how such amount shall be accounted for at the time approval for the disposition of accounting is granted. When plant is disposed of by transfer to a wholly owned subsidiary the related balance in this account shall also be transferred. When the disposition relates to retirement of an item or items under a group method of depreciation where there is no tax effect in the year of retirement, no entries are required in this account if it can be determined that the related balances would be necessary to be retained to offset future group item tax deficiencies.

282 Accumulated deferred income taxes—Other property.

A. This account shall include the tax deferrals resulting from adoption of the principle of comprehensive interperiod income tax allocation described in General Instruction 18 of this system of accounts which are related to all property other than accelerated amortization property.

B. This account shall be credited and accounts 410.1, Provision for Deferred Income Taxes, Utility Operating Income, or 410.2, Provision for Deferred Income Taxes, Other Income and Deductions, as appropriate, shall be debited with tax effects related to property described in paragraph A above where taxable income is lower than pretax accounting income due to differences between the periods in which revenue and expense transactions affect taxable income and the periods in which they enter into the determination of pretax accounting income.

C. This account shall be debited and accounts 411.1, Provision for Deferred Income Taxes—Credit, Utility Operating Income, or 411.2, Provision for Deferred Income Taxes—Credit, Other Income and Deductions, as appropriate, shall be credited with tax effects related to property described in paragraph A above where taxable income is higher than pretax accounting income due to differences between the periods in which revenue and expense transactions affect taxable income and the periods in which they enter into the determination of pretax accounting income.

D. The utility is restricted in its use of this account to the purposes set forth above. It shall not transfer the balance in this account or any portion thereof to retained earnings or make any use thereof except as provided in the text of this account without prior approval of the Commission. Upon the disposition by sale, exchange, transfer, abandonment or premature retirement of plant on which there is a related balance herein, this account shall be charged with an amount equal to the related income tax expense, if any, arising from such disposition and account 411.1, Income Taxes Deferred in Prior Years—Credit, Utility Operating Income, or 411.2, Income Taxes Deferred in Prior Years—Credit, Other Income and Deductions, shall be credited. When the remaining balance after consideration of any related tax expenses, is less than \$25,000, this account shall be charged and account 411.1 or 411.2, as appropriate, credited with such balance. If after consideration of any related income tax expense, there is a remaining amount of \$25,000 or more, the Commission shall authorize or direct how such amount shall be accounted for at the time approval for the disposition of accounting is granted. When plant disposed of by transfer to a wholly owned subsidiary, the related balance in this account shall also be