KeyCite Yellow Flag
Order Clarified by Amendments to Uniform System of Accounts for Public Utilities and Licensees and for Natural Gas Companies (Classes A, B, C and D) To Provide for the Determination of Rate for Computing the Allowance for Funds Used During Construction and Revisions of Certain Schedule Pages of FPC Reports, F.E.R.C., January 20, 1978

57 F.P.C. 608, 1977 WL 16195

AMENDMENTS TO UNIFORM SYSTEM OF ACCOUNTS FOR PUBLIC UTILITIES AND LICENSEES AND FOR NATURAL GAS COMPANIES (CLASSES A, B, C AND D) TO PROVIDE FOR THE DETERMINATION OF RATE FOR COMPUTING THE ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION AND REVISIONS OF CERTAIN SCHEDULE PAGES OF FPC REPORTS,

DOCKET NO. RM75–27
ORDER NO. 561
ORDER ADOPTING AMENDMENT TO UNIFORM SYSTEM OF ACCOUNTS FOR PUBLIC UTILITIES AND LICENSEES AND FOR NATURAL GAS COMPANIES
February 2, 1977*

****1** ***608** Before Commissioners: Richard L. Dunham, Chairman; Don S. Smith, John H. Holloman III and James G. Watt.

On May 20, 1975, the Commission issued a notice of proposed rulemaking in Docket No. RM75–27 (40 F.R. 23322, May 29, 1975). This rulemaking proposed to establish a uniform formulary method for determining the maximum rates to be used in computing the Allowance for Funds Used During Construction (AFUDC) and to provide accounting and reporting requirements for AFUDC which accord with the elements entering into the determination of AFUDC rates. The stated objective of the proposed rule was to establish a method which would give recognition to the interrelationship between capital utilized for rate case purposes and the capital components of AFUDC in a manner that would permit utility to achieve a rate of return on its total utility operations, including its constructions program, at approximately the rate which would be allowed in a rate case.

Comments were invited from interested parties on or before July 7, 1975. Due to requests, this date was extended to September 5, 1975. In response to the proposed rulemaking, the Commission received comments from 79 respondents (Attachment A). In general, the reaction to the proposed rulemaking was favorable as to its overall objective, but many respondents questioned the ability of the proposal to meet such objective and made suggestions for improvement.

Many respondents objected to the weight given short-term debt in the proposed rule and suggested a number of alternatives. These respondents argued that short-term debt is not necessarily the first source of construction funds, as would be indicated by application of he proposed formula, and should be ignored or given less weight. We are not convinced, however, that we should modify the proposed formula with respect to short-term debt. It is generally impossible to specifically trace the source of funds used for ***609** various corporate purposes and it was not the purpose of our proposed rule to do so. Instead, we proposed a rule that would give a utility an opportunity to be compensated for the total cost of capital devoted to utility operations, including its construction program. In order to accomplish this, it is necessary to look to how the cost of capital is handled in a rate proceeding so that a method for determining AFUDC can be devised that will not result in double counting of the same capital cost or will not omit important categories of capital cost. Typically, short-term debt has not been included in rate of return computations for cost of service purposes on the grounds that such debt is temporary and is used essentially for construction purposes; however, the cost of such debt represents a valid and necessary expenditure for conducting utility operations which ultimately must be recovered through rates. By adopting the approach of permitting the capitalization of short-term debt cost through AFUDC, we provide such a mechanism. It should be understood that this method is for the purpose of establishing a rate for AFUDC and not for establishing a method for allocating short-term interest cost for the purpose of a rate proceeding.

****2** Many respondents also questioned the use of embedded cost rates for long-term debt and preferred stock in the proposed AFUDC formula and suggested incremental cost rates be used instead. For essentially the same reasons that we believe the proposed handling of short-term debt should not be modified, we are rejecting this suggestion. If incremental cost rates were utilized for these categories of capital cost in the AFUDC formula, there would be a double counting for the same costs. Embedded cost rates are normally used for rate of return purposes and such cost rates include the cost of new as well as old issues of long-term debt and preferred stock. Therefore, the composite return on rate base collected through rates provides for the proportionate recovery of new or incremental capital costs in the ratio of rate base to the size of the capital structure used for rate of return purposes. If we assume fo the sake of argument that the sum of a utility's permanent capital structure plus short-term borrowing is equal to the sum of its rate base plus construction work in progress balances, it is obvious that the use of incremental cost for AFUDC purposes and embedded cost for rate of return purposes would result in double counting of the same costs. Although the above illustration somewhat oversimplifies the issue, we believe that the principle is adequately demonstrated.

The other basic component for AFUDC relates to common equity funds. Comments by respondents on this subject primarily related to how the reasonable cost rate for common equity funds should be determined. Unlike debt costs or the cost of preferred stock, which can be objectively determined by analysis of actual contractual obligations and expenditures, the cost of common equity is not ordinarily related to contractual requirements. In the proposed rule we indicated that the cost rate to be used for common equity would be the rate granted common equity in the last rate proceeding before ***610** the body having primary rate jurisdiction or, if such rate is not available, the average rate actually earned during the preceding 3 years should be used. We recognize, based on the comments received, that this approach may require some modification in situations where ratemaking bodies use other than an ‘original cost’ rate base or where utilities are subject to multiple rate jurisdiction. However, in developing a general rule relating to AFUDC, we find any possible inequities of this nature can best be handled on an individual company basis.

Having considered the broad issues of the various components of the AFUDC, it is now necessary to focus on the many constructive and helpful comments and suggestions received relating to other facets of the proposed rulemaking.

Many comments were received regarding the desirability of segregating AFUDC into two components, borrowed funds and other funds, and the relocation of the allowance for borrowed funds to the Interest Charges Section of the income statement. The main objection to this proposed requirement was that it would have the effect of reducing interest coverages and thereby restrict the issuances of additional debt by some companies. We recognized that this may be a particularly uninviting aspect of the proposed rule for some utilities since ‘Other Income’ will be reduced upon application of the proposed rule and such income is frequently, in whole or part, used for interest coverage tests. [1] However, we believe this change to be necessary in order to better inform readers of the financial statements of utilities as to the nature and level of the capitalized allowance for borrowed funds. Since there is little conceptual difference between capitalization of the cost of borrowed funds used for construction purposes and other costs of construction such as labor and materials, we believe that the readers of financial statements will be better informed if such construction interest is shown as an allocation of cost by a reduction in the Interest Charges Section of the income statement rather than as an income item.

****3** A number of respondents criticized the proposal to determine the current year's AFUDC rates by the use of average actual book balances and cost rates of the prior year principally because short-term debt cost rates and balances are very volatile and the use of averages for a previous year does not give a proper indication of the cost of short-term debt for prospective computations of AFUDC. We agree that this is a valid point and believe that modifications of the proposed rule in this are are necessary.

We are modifying the proposed rule to provide that the balances of long-term debt, preferred stock, and common equity for use in the formula for the current year will be the balances in such accounts at the end of the prior year; the cost rates for long-term debt and preferred stock will be the effective ***611** weighted average cost of such capital. The average short-term debt balances and related cost and the average construction work in progress balance will be estimated for the current year. We shall require, however, that public utilities and natural gas companies monitor their actual experience and adjust to actual at year-end if a significant deviation from the estimate should occur. For this purpose we shall consider a significant deviation to exist if the gross AFUDC rate exceeds by more than one-quarter of a percentage point (25 basis points) the rate that is derived from the formula by use of actual 13 monthly balances of construction work in progress and the actual weighted average cost and balances for short-term debt outstanding during the year.

Many respondents requested clarification as to whether premiums, discounts and expenses related to long-term debt, and compensating balances and commitment fees related to short-term debt, were to be considered when determining the cost rate for such funds. With respect to long-term debt, the cost of such capital should be the yield to maturity determined in the same manner as set forth in § 35.13(b)(4)(iii), Statement G—Rate of Return, of the Commission's Regulations under the Federal Power Act and § 154.63(f), Statement F(3)—Debt Capital, of the Commission's Regulations under the Natural Gas Act which gives appropriate recognition to premiums, discounts and expenses related to long-term debt. In regard to short-term debt, several respondents have pointed out that compensating balances and commitment fees have cost implications with respect to bank loans and as support for commercial paper and urged that recognition be given for such costs. We agree that in some instances, such items could properly be considered in determining the effective cost rate for short-term debt for use in the formula. However, primarily because of measurement problems, we do not believe that specific recognition should be given in the general rule. Instead, where an individual company has a written agreement and can support the fact that compensating balances and commitment fees are necessary in order to obtain favorable short-term financing and are not considered in its rate proceedings, we will permit an adjustment to the nominal short-term interest rates to reflect this additional cost. We believe that this approach is necessary because of the diversity of rate treatment for these items; the commingling and lack of identification of bank balances kept for normal operating purposes and those used for compensating bank balance purposes; and the frequent lack of formal agreements for required levels of compensating bank balances.

****4** Some respondents commented that the value of noninvestor sources of funds such as accumulated deferred income taxes and contributions in aid of construction should be recognized in the formula. We are not adopting this suggestion since normally the entire balances in the accumulated deferred income taxes accounts are used to reduce rate base for cost of service purposes.[2] To include such balances in determining the AFUDC rate would ***612** result in double counting of the same dollars. The same reasons apply for contributions in aid of construction, since under our Uniform System of Accounts such contributions are credited directly to construction costs.

A number of respondents commented that previously capitalized AFUDC should be included in the cost base to which the AFUDC rate applies since AFUDC is a cost of construction similar to labor, materials and other elements of construction. Thus, it is asserted that the compound method must be recognized if AFUDC is to properly compensate the utility for use of funds while devoted to construction. We agree that compounding of AFUDC is proper in theory and necessary as a matter of sound cost determination; however, we believe that a monthly compounding of AFUDC as suggested by some respondents may result in excessive amounts capitalized since cash outlays for interest and dividends are not normally made on a monthly basis. We shall therefore permit compounding but no more frequently than semiannually.

A number of respondents also indicated that any rules issued with respect to AFUDC should apply to Nuclear Fuel in Process of Refinement, Conversion, Enrichment and Fabrication (Account 120.1) in the same manner as Construction Work in Progress. We agree with these comments and will so provide.

Certain other constructive suggestions received from respondents have been included in the accounting instructions for the purpose of adding clarity to the accounting text.

We have also deleted that portion of the proposed plant instructions pertaining to computations of income taxes. We believe that these proposed instructions are not now necessary in view of our Order Nos. 530 (53 FPC 2123),530–A (55 FPC 162)and 530–B (56 FPC 739) in Docket Nos. R–424, Accounting for Premiums, Discount and Expense of Issue, Gains and Losses Debt, and Interperiod Allocation on Refunding and Reaquisition of Long-Term Debt, and Interperiod Allocation of Income Taxes and R–

446, Amendments to the Uniform System of Accounts for Classes A, B and C Public Utilities and Licensees and Natural Gas Companies: Deferred Income Taxes. As stated in Order No. 530–A:

> The accounting for deferred income taxes prescribed in Order No. 530 was structured to accommodate utilities under the rate jurisdiction of the various state regulatory bodies that may or may not authorize deferred tax accounting for rate purposes (See General Instruction 18). If a net of tax allowance for funds rate is prescribed by a regulatory body in setting the rate levels of utilities, we consider that such treatment is consistent with the intent of Order No. 530 and it is not necessary for utilities to set aside deferred income taxes related to the interest component ***613** of the allowance for funds rate. In light of this, we do not believe that it is necessary to make provision in the Uniform System of Accounts to cover this matter.

The Commission finds:

****5** (1) The notice and opportunity to participate in this rulemaking proceeding with respect to the matters presently before this Commission through the submission, in writing, of data, views, comments and suggestions in the manner described above, are consistent and in accordance with the procedural requirements prescribed by 5 U.S.C. 553.

(2) The amendments to Parts 101 and 104 of the Commission's Uniform System of Accounts for Public Utilities and Licensees and to FPC Forms No. 1, No. 1–F, and No. 5 required by § 141.1, 141.2, and 141.25 in Chapter I, Title 18 of the Code of Federal Regulations, herein prescribed, are necessary and appropriate for the administration of the Federal Power Act.

(3) The amendments to Parts 201 and 204 of the Commission's Uniform System of Accounts for Natural Gas Companies, and to FPC Forms No. 2, No. 2–A, and No. 11 required by § 260.1, 260.2, and 260.3 in Chapter I, Title 18 of the Code of Federal Regulations, herein prescribed, are necessary and appropriate for the administration of the Natural Gas Act.

(4) Since the amendments prescribed herein, which were not included in the notice of the proceeding, are consistent with the prime purpose of the Proposed Rulemaking, further notice thereof is unnecessary.

(5) Good cause exists for making the amendments to the Uniform System of Accounts for Public Utilities and Licensees and Natural Gas Companies ordered herein effective on January 1, 1977, and the amendments to FPC Forms No. 1, No. 1–F, No. 2, No. 2–F, No. 5, and No. 11 ordered herein, effective for the reporting year 1977.

The Commission, acting pursuant to the provisions of the Federal Power Act, as amended, particularly Sections 3, 4, 301, 304, 308, 309, and 311 (41 Stat. 1063, 1065; 49 Stat. 838, 839, 854, 855, 858, 859; 16 U.S.C. 796, 797, 825, 825c, 825g, 825h, 825j) and of the Natural Gas Act, as amended, particularly Sections 8, 10, and 16 (52 Stat. 825, 826, 830; 15 U.S.C. 717g, 717i, 717***o***), *orders:*

(A) Effective January 1, 1977, the Commission's Uniform System of Accounts for Class A and Class B Public Utilities and Licensees in Part 101, Chapter I, Title 18 of the Code of Federal Regulations is amended as follows:

(1) The General Instructions are amended by revising paragraph ‘I’ of Instruction ‘17. *Long-Term Debt: Premium, Discount and Expense, and Gain of Loss on Reacquisition*.’ As amended, this portion of General Instruction 17 reads:

***614 GENERAL INSTRUCTIONS**

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

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.

(2) Subparagraph '(17) Allowance for Funds Used During Construction' of Electric Plant Instruction '3. *Components of Construction Cost*.' is amended by revising the first sentence of the paragraph and by adding two new paragraphs (a) and (b) immediately following the first paragraph. As amended, subparagraph (17) reads:

ELECTRIC PLANT INSTRUCTIONS

****6** 3. *Components of Construction Cost*.

(17) 'Allowance for funds used during construction' includes the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used, not to exceed, without prior approval of the Commission, allowances computed in accordance with the formula prescribed in paragraph (a) below. 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

***615** 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.

(4) 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 3 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: * * *

(3) The Chart of Income Accounts is amended by revising the title of account ‘419.1, Allowance for Funds Used During Construction,’ to read ‘419.1, Allowance for Other Funds Used During Construction;’ by adding a new account 432, Allowance for Borrowed Funds Used During Construction-Credit, immediately following account ‘431, Other Interest Expense’ and revising the sub-total caption ‘Total Interest Charges' to read ‘Net Interest Charges.’ As amended, the Chart of Income Accounts reads:

INCOME ACCOUNTS

(Chart of Accounts)

2. Other Income and Deductions

A. Other Income

419.1 Allowance for other funds used during construction.

***616 3. Interest Charges**

****7** 432 Allowance for borrowed funds used during construction-Credit.
Net interest charges

(4) The text of the Income Accounts is amended by revising the title and text of account ‘419.1, Allowance for Funds Used During Construction,’ and by adding a new account 432, Allowance for Borrowed Funds Used During Construction-Credit, immediately following account ‘431, Other Interest Expense.’ As amended, these portions of the text of the Income Accounts reads:

INCOME ACCOUNTS

2. Other Income and Deductions

419.1 Allowance for other funds used during construction.
This account shall include concurrent credits for allowance for other funds used during construction, not to exceed amounts computed in accordance with the formula prescribed in Electric Plant Instruction 3(17).

3. Interest Charges

432 Allowance for borrowed funds used during construction-Credit.
This account shall include concurrent credits for allowance for borrowed funds used during construction, not to exceed amounts computed in accordance with the formula prescribed in Electric Plant Instruction 3(17).

(B) Effective January 1, 1977, the Commission's Uniform System of Accounts for Class C and Class D Public Utilities and Licensees in Part 104, Chapter I, Title 18 of the Code of Federal Regulations is amended as follows:

(1) The General Instructions are amended by revising paragraph ‘I’ of Instruction ‘15. *Long-Term Debt: Premium, Discount and Expense, and Gain or Loss on Reacquisition*.’ As amended, this portion of General Instruction 15 reads:

***617 GENERAL INSTRUCTIONS**

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

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.

(2) Electric Plant Instruction '2. Components of Construction Cost.' is amended by revising the first paragraph and lettering it 'A.' and by adding two new paragraphs B. and C. immediately following the first paragraph. As amended, Instruction 2 reads:

ELECTRIC PLANT INSTRUCTIONS

2. *Components of Construction Cost*.
A. 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 B below; and such portion of general engineering, administrative salaries and expenses, insurance, taxes, and other analogous items as may be properly includible in construction costs.

****8** B. The formula and elements for 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

***618** 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

C. 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 jurisdiction. If such cost rate is not available, the average rate actually earned during the preceding 3 years shall be used. The short-term debt balances and related cost and the average balance for construction work in progress plus unclear fuel in process of refinement, conversion, enrichment, and fabrication shall be estimated for the current year with with appropriate adjustments as actual data becomes available.

(3) The Chart of Income Accounts is amended by revising the title of account '419.1, Allowance for Funds Used During Construction,' to read '419.1, Allowance for Other Funds Used During Construction' and by adding a new account 432, Allowance for Borrowed Funds Used During Construction—Credit immediately following account '431, Other Interest Expense' and revising the subtotal caption 'Total Interest Charges' to read 'Net Interest Charges.' As amended, the Chart of Income Accounts reads:

INCOME ACCOUNTS

(Chart of Accounts)

2. Other Income and Deductions

A. Other Income

419.1 Allowance for other funds used during construction.

***619 3. Interest Charges**

432 Allowance for borrowed funds used during construction—Credit.
Net interest charges

(4) The text of the Income Accounts is amended by revising the title and text of account '419.1, Allowance for Funds Used During Construction,' and by adding a new account 432, Allowance for Borrowed Funds Used During Construction—Credit immediately following account '432, Other Interest Expense.' As amended, these portions of the text of the Income Accounts reads:

INCOME ACCOUNTS

2. Other Income and Deductions

****9** 419.1 Allowance for other funds used during construction.
This account shall include concurrent credits for allowance for other funds used during construction, not to exceed amounts computed in accordance with the formula prescribed in Electric Plant Instruction 2. No allowance for funds used during construction shall be capitalized on plant which is completed and ready for service.

3. Interest Charges

432 Allowance for borrowed funds used during construction—Credit.
This account shall include concurrent credits for allowance for borrowed funds used during construction, not to exceed amounts computed in accordance with the formula prescribed in Electric Plant Instruction 2. No allowance for funds used during construction shall be capitalized on plant which is completed and ready for service.

(C) Effective January 1, 1977, the Commission's Uniform System of Accounts for Class A and Class B Natural Gas Companies in Part 201, Chapter I, Title 18 of the Code of Federal Regulations is amended as follows:

(1) The General Instructions are amended by revising paragraph 'I' of Instruction '17. *Long-Term Debt: Premium, Discount and Expense, and Gain or Loss on Reacquisition*.' As amended, this portion of General Instruction 17 reads:

***620 GENERAL INSTRUCTIONS**

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

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.

(2) Subparagraph '(17) Allowance for Funds Used During Construction' of Gas Plant Instruction '3. *Components of Construction Cost*.' is amended by revising the present paragraph, and immediately following the present paragraph, adding two new paragraphs (a) and (b). As amended, subparagraph (17) reads:

GAS PLANT INSTRUCTIONS

3. *Components of Construction Cost*.

(17) 'Allowance for funds used during construction' includes the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used, not to exceed without prior approval of the Commission allowances computed in accordance with the formula prescribed in paragraph (a) below, except when such other funds are used for exploration and development of leases acquired after October 7, 1969, no allowance on such other funds shall be included in these accounts. No allowance for funds used during construction charges shall be included in these accounts upon expenditures for construction projects which have been abandoned.

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

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

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

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

***621** 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
****10** (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 § 154.63 of the Commission's Regulations under the Natural Gas Act. The cost rate for common equity shall be the rate granted common equity in the last rate proceeding before the ratemaking body having primary rate jurisdiction. If such cost rate is not available, the average rate actually earned during the preceding 3 years shall be used. The short-term debt balances and related cost and the average balance for construction work in progress shall be estimated for the current year with appropriate adjustments as actual data becomes available.
NOTE: * * *

(3) The Chart of Income Accounts is amended by revising the title of account ‘419.1, Allowance for Funds Used During Construction,’ to read ‘419.1, Allowance for Other Funds Used During Construction’ and by adding a new account 432, Allowance for Borrowed Funds Used During Construction—Credit, immediately following account ‘431, Other Interest Expense’ and revising the sub-total caption ‘Total Interest Charges' to read ‘Net Interest Charges.’ As amended, the Chart of Income Accounts reads:

INCOME ACCOUNTS

(Chart of Accounts)

2. Other Income and Deductions

A. Other Income

419.1 Allowance for the funds used during construction.

***622 3. Interest Charges**

432 Allowance for borrowed funds used during construction—Credit.
Net interest charges.

(4) The text of the Income Accounts is amended by revising the title and text of account ‘419.1, Allowance for Funds Used During Construction.’ and by adding a new account 432, Allowance for Borrowed Funds Used During Construction—Credit,

immediately following account ‘431, Other Interest Expense.’ As amended, these portions of the text of the Income Accounts read:

INCOME ACCOUNTS

2. Other Income and Deductions

419.1 Allowance for other funds used during construction.
This account shall include concurrent credits for allowance for other funds used during construction, not to exceed amounts computed in accordance with the formula prescribed in Gas Plant Instruction 3(17).

3. Interest Charges

432 Allowance for borrowed funds used during construction—Credit.
This account shall include concurrent credits for allowance for borrowed funds used during construction, not to exceed amounts computed in accordance with the formula prescribed in Gas Plant Instruction 3(17).

(D) Effective January 1, 1977, the Commission's Uniform System of Accounts for Class C and Class D Natural Gas Companies in Part 204, Chapter I, Title 18 of the Code of Federal Regulations is amended as follows:

(1) The General Instructions are amended by revising paragraph ‘I’ of Instruction ‘15. *Long-Term Debt: Premium, Discount and Expense, and Gain or Loss on Reacquisition*.’ As amended, this portion of General Instruction 15 reads:

***623 GENERAL INSTRUCTIONS**

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

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.

(2) Amend Gas Plant Instruction ‘2. *Components of Construction Cost*.’ by revising the first paragraph and lettering it ‘A.’ and by adding two new paragraphs B. and C. immediately following the first paragraph. As amended, Instruction 2 reads:

GAS PLANT INSTRUCTIONS

2. *Components of Construction Cost*.
A. The cost of construction of property chargeable to the gas plant accounts shall include, where applicable, fees for construction certificate applications paid after grant of certificate, the cost of labor, materials and supplies, transportation, work done by others for the utility, injuries and damages incurred in construction, 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 B below, training costs and such portion of general engineering, administrative salaries and expenses, insurance, taxes, and other analogous items as may be properly includible in construction costs. (See Operating Expense Instruction 3.) When the utility employs its own funds in exploration and development on leases acquired after October 7, 1969, no allowance for funds used during construction on such funds shall be included in these accounts.

B. The formula and elements for the computation of the allowance for funds used during construction shall be:
$A_i = s(S/W) + d(D/D + P + C) (1 - S/W)$

$A_e = [1 - S/W] [p(P/D + P + C) + c(C/D + P + C)]$
***624** 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

C. 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 § 154.63 of the Commission's Regulations under the Natural Gas Act. The cost rate for common equity shall be the rate granted common equity in the last rate proceeding before the ratemaking body having primary rate jurisdiction. If such cost rate is not available, the average rate actually earned during the preceding 3 years shall be used. The short-term debt balances and related cost and the average balance for construction work in progress shall be estimated for the current year with appropriate adjustments as actual data becomes available.

****12** (3) The Chart of Income Accounts is amended by revising the title of account '419.1, Allowance for Funds Used During Construction,' to read '419.1, Allowance for Other Funds Used During Construction' and by adding a new account 432, Allowance for Borrowed Funds Used During Construction—Credit, immediately following account '431, Other Interest Expense' and revising the sub-total caption 'Total Interest Charges' to read 'Net Interest Charges.' As amended, the Chart of Income Accounts reads:

INCOME ACCOUNTS

(Chart of Accounts)

2. Other Income and Deductions

A. Other Income

419.1 Allowance for other funds used during construction.

***625 3. Interest Charges**

432 Allowance for borrowed funds used during construction—Credit.
Net interest charges.

(4) The text of the Income Accounts is amended by revising the title and text of account '419.1, Allowance for Funds Used During Construction,' and by adding a new account 432, Allowance for Borrowed Funds Used During Construction—Credit, immediately following account '431, Other Interest Expense.' As amended, these portions of the text of the Income Accounts read:

INCOME ACCOUNTS

2. Other Income and Deductions

419.1 Allowance for other funds used during construction.
This account shall include concurrent credits for allowance for other funds used during construction, not to exceed amounts computed in accordance with the formula prescribed in Gas Plant Instruction 2. No allowance for funds used during construction shall be capitalized on plant which is completed and ready for service.

3. Interest Charges

432 Allowance for borrowed funds used during construction—Credit.
This account shall include concurrent credits for allowance for borrowed funds used during construction, not to exceed amounts computed in accordance with the formula prescribed in Gas Plant Instruction 2. No allowance for funds used during construction shall be capitalized on plant which is completed and ready for service.

(E) Effective for the reporting year 1977, certain schedule pages of FPC Form No. 1, Annual Report for Electric Utilities, Licensees and Others ***626** (Class A and Class B), prescribed by § 141.1, Chapter I, Title 18 of the Code of Federal Regulations are amended, all as set out in Attachments B[3] and C[4] hereto.

(F) Effective for the reporting year 1977, certain schedule pages of FPC Form No. 2, Annual Report for Natural Gas Companies (Class A and Class B), prescribed by § 260.1, Chapter I, Title 18 of the Code of Federal Regulations are amended, all as set out in Attachments B and D[5] hereto.

(G) Effective for the reporting year 1977, certain schedule pages of FPC Form No. 1–F, Annual Report for Public Utilities and Licensees (Class C and Class D), prescribed by § 141.2, Chapter I, Title 18 of the Code of Federal Regulations are amended, all as set out in Attachment E[6] hereto.

****13** (H) Effective for the reporting year 1977, certain schedule pages of FPC Form No. 2–A, Annual Report for Natural Gas Companies (Class C and Class D), prescribed by § 260.2, Chapter I, Title 18 of the Code of Federal Regulations are amended, all as set out in Attachment C hereto.

(I) Effective for the reporting year 1977, certain schedule pages of FPC Form No. 5, Monthly Statement of Electric Operating Revenue and Income, prescribed by § 141.25, Chapter I, Title 18 of the Code of Federal Regulations is amended, all as set out in Attachment F[7] hereto.

(J) Effective for the reporting year 1977, certain schedule pages of FPC Form No. 11, Natural Gas Pipeline Company Monthly Statement, prescribed by § 260.3, Chapter I, Title 18 of the Code of Federal Regulations is amended, all as set out in Attachment G[8] hereto.

(K) The Secretary shall cause prompt publication of this Order to be made in the Federal Register.

ATTACHMENT A

Respondents RM75–27

Respondent

Accounting Firms

Arthur[9] Anderson & Co.

Orrin[9] T. Colby, Jr.

Coopers[9] & Lybrand

Haskins & Sells

Price[9] Waterhouse & Co.

627** ***Associations

American Gas Association (AGA)

Edison[9] Electric Institute (EEI)

Interstate Natural Gas Association of America (INGAA)

Electric Utility Companies

Alabama[9] Power Co.

American Electric Power Service Corp.

Appalachian Power Co.

Indiana & Michigan Electric Co.

Kentucky Power Co.

Kingsport Power Co.

Michigan Power Co.

Ohio Power Co.

Wheeling Electric Co.

Arkansas [9] Power & Light Co.

Carolina Power & Light Co.

Cincinnati Gas & Electric Co.

Lawrenceburg Gas Company, The

Union Light, Heat and Power Co., The

West Harrison Gas & Electric Co., The

Cleveland [9] Electric Illuminating Co., The

Columbus and Southern Ohio Electric Co.

Commonwealth Edison

Consolidated Edison Co. of New York, Inc.

Consumers Power Co.

Dayton [9] Power and Light Co., The

Detroit [9] Edison Co., The

Duke Power Co.

Florida Power & Light Co.

Florida [9] Power Corp.

General Public Utilities Corp.

Jersey Central Power & Light Co.

Metropolitan Edison Co.

Pennsylvania Electric Co.

Georgia Power Co.

Gulf [9] Power Co.

Gulf [9] States Utilities Co.

Idaho [9] Power Co.

Illinois [9] Power Co.

Iowa-Illinois [9] Gas and Electric Co.

Iowa [9] Power and Light Co.

Iowa Public Service Co.

Kansas City Power & Light Co.

Kansas Gas and Electric Co.

Long [9] Island Lighting Co.

Middle [9] South Services, Inc.

Arkansas-Missouri Power Co.

Arkansas Power & Light Co.

Louisiania Power & Light Co.

Mississippi Power & Light Co.

New Orleans Public Service, Inc.

Minnesota Power & Light Co.

New [9] England Electric System

Granite State Electric Co.

Massachusetts Electric Co.

****14** Narragansett Electric Co., The

New England Power Co.

Niagara [9] Mohawk Power Corp.

Northeast [9] Utilities

Connecticut Light & Power Co., The

Hartford Electric Light Co., The

Holyoke Power & Electric Co.

Holyoke Water Power Co.

Western Massachusetts Electric Co.

Northern [9] States Power Co.

Ohio Edison Co.

Pennsylvania Power Co.

Otter [9] Tail Power Co.

Pacific [9] Gas and Electric Co.

Pennsylvania [9] Power & Light Co.

Philadelphia Electric Co.

Portland [9] General Electric Co.

Public [9] Service Co. of Indiana, Inc.

Public Service Co. of New Mexico

Public Service Co. of Oklahoma

Public Service Electric and Gas Co.

Puget Sound Power & Light Co.

Rochester Gas and Electric Corp.

San [9] Diego Gas & Electric Co.

Southern California Edison Co.

South [9] Carolina Electric & Gas Co.

Tampa Electric Co.

Toledo [9] Edison Co., The

Tucson Gas & Electric Co.

Union Electric Co.

Utah [9] Power & Light Co.

Washington Water Power Co., The

West [9] Texas Utilities Co.

Wisconsin [9] Power & Light Co.

Natural Gas Companies

Columbia Gas Transmission Corp.

Consolidated Gas Supply Corp.

Consolidated System LNG Co.

El Paso Natural Gas Co.

Natural Gas Pipeline Co. of America

Northern [9] Natural Gas Co.

Panhandle Eastern Pipe Line Co.

Trunkline Gas Co.

Texas Eastern Transmission Corp.

628** ***State Regulatory Commissions

Florida [9] Public Service Commission

Public Service Commission of the State of New York

Rural Electric Cooperative Associations

National Rural Electric Cooperative Association

Public [9] Systems

Southern Engineering Company

Others

First National City Bank

Dan L. Neidlinger

Stone & Webster Management Consultants, Inc.

FEDERAL POWER COMMISSION

Footnotes

* Published in the Federal Register on February 15, 1977 (42 F.R. 1961). Order issued April 1, 1977 granting application for rehearing for purpose of further consideration, unreported. Order No. 561–A issued August 1, 1977 denying application for rehearing and clarifying prior order, 59 FPC 1340 [Editor's note: Petition for review filed on September 28, 1977 *sub nom. Jersey Central Power & Light Co., et al.* v. *F.P.C.*, in CADC No. 77–1883.] Order issued January 20, 1978 clarifying Order Nos. 561 and 561–A, 2 FERC ¶ ——.

1 We also recognize that interest coverages for some utilities may be increased if in their coverage computations they use net interest charges since this amount will be reduced upon application of the proposed rule.

2 There is one category of accumulated deferred taxes which is not used to reduce rate base. Under our ratemaking practices the balances of Account 281, Accumulated deferred income taxes-Accelerated amortization, are included in the capitalization used for rate of return purposes at zero cost. The balances in these accounts, however, are relatively small and the effect on the AFUDC rate if taken into consideration would be negligible.

3 Omitted in printing.

4 Omitted in printing.

5 Omitted in printing.

6 Omitted in printing.

7 Omitted in printing.

8 Omitted in printing.

9 Not filed within the time prescribed.

57 F.P.C. 608, 1977 WL 16195