

INTERPRETATIONS OF UNIFORM SYSTEM OF ACCOUNTS FOR ELECTRIC AND GAS UTILITIES



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FOREWORD

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

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

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

THE
FEDERAL
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TO : DIRECTOR, FBI
FROM : SAC, NEW YORK
SUBJECT: [illegible]

RE: [illegible]

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INTERPRETATIONS
UNIFORM SYSTEM OF ACCOUNTS

No. 1 - EG

Question:

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

Answer:

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

No. 2 - EG

Question:

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

Answer:

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

No. 3 - EG

Question:

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

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

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

Answer:

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

No. 4 - EG

Question:

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

Answer:

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

No. 5 - EG

Question:

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

Answer:

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

No. 6 - EG

Question:

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

Answer:

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

No. 7 - EG

Question:

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

Answer:

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

No. 8 - EG

Question:

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

Answer:

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

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

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

No. 9 - EG

Question:

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

Answer:

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

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

No. 10 - EG

Question:

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

Answer:

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

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

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

No. 11 - EG

Question:

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

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

Answer:

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

No. 12 - EG

Question:

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

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

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

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

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

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

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

Answer:

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

B. Yes.

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

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

No. 13 - EG

Question:

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

Was this accounting treatment for the redemption premium proper?

Answer:

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

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

No. 14 - EG

Question:

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

Was the accounting treatment for the redemption premiums proper?

Answer:

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

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

No. 15 - EG

Question:

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

charges made to the respective departments?

Answer:

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

No. 16 - EG

Question:

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

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

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

Answer:

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

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

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

No. 17 - E

Question:

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

Answer:

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

No. 18 - E

Question:

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

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

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

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

Answer:

Yes.

No. 19 - E

Question:

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

Answer:

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

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

No. 20 - E

Question:

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

Answer:

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

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

No. 21 - E

Question:

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

Answer:

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

No. 22 - E

Question:

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

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

Answer:

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

No. 23 - EG

Question:

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

Answer:

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

No. 24 - E

Question:

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

Answer:

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

No. 25 - E

Question:

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

Answer:

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

No. 26 - EG

Question:

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

Answer:

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

No. 27 - E

Question:

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

Answer:

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

No. 28 - E

Question:

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

Answer:

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

No. 29 - EG

Question:

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

Answer:

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

No. 30 - EG

Question:

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

Answer:

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

No. 31 - EG

Question:

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

Answer:

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

No. 32 - EG

Question:

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

Answer:

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

No. 33 - E

Question:

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

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

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

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

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

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

Answer:

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

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

No. 34 - E

Question:

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

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

What is the proper accounting for the electric utility when:

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

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

Answer:

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

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

No. 35 - E

Question:

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

Answer:

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

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

No. 36 - E

Question:

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

Answer:

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

No. 37 - E

Question:

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

Answer:

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

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

No. 38 - E

Question:

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

Answer:

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

No. 39 - EG

Question:

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

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

Answer:

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

No. 40 - EG

Question:

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

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

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

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

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

Answer:

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

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

No. 41 - EG

Question:

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

Answer:

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

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

No. 42 - EG

Question:

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

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

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

C. The expense of the merger;

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

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

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

Answer:

A. These amounts must be written off;

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

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

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

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

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

No. 43 - EG

Question:

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

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

Answer:

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

No. 44 - E

Question:

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

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

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

Answer:

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

No. 45 - E

Question:

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

Answer:

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

No. 46 - EG

Question:

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

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

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

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

Answer:

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

B. Same as A above.

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

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

No. 47 - EG

Question:

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

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

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

Answer:

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

No. 48 - EG

Question:

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

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

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

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

Answer:

- A. All except "interest" calculated on a percentage basis per annum.
- B. Yes.
- C. The discount suffered should be charged to Account 431 - Other Interest Expense.

No. 49 - EG

Question:

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

Answer:

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

No. 50 - EG

Question:

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

Answer:

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

No. 51 - EG

Question:

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

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

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

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

Answer:

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

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

C. No.

No. 52 - E

Question:

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

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

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

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

Answer:

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

B. If the fences are protective fences which isolate the

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

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

No. 53 - EG

Question:

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

Answer:

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

No. 54 - E

Question:

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

Answer:

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

Question:

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

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

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

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

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

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

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

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

Answer:

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

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

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

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

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

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

No. 56 - EG

Question:

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

Answer:

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

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

No. 57 - E

Question:

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

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

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

Answer:

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

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

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

over the utility's accounting.

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

No. 58 - EG

Question:

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

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

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

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

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

Answer:

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

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

No. 59 - EG

Question:

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

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

Answer:

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

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

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

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

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

No. 60 - G

Question:

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

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

Answer:

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

No. 61- EG

Question:

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

Answer:

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

No. 62 - G

Question:

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

Answer:

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

constitutes an interest in a production area.

No. 63 - EG

Question:

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

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

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

Answer:

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

No. 64 - G

Question:

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

Answer:

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

No. 65 - EG

Question:

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

Answer:

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

No. 66 - EG

Question:

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

"The utility shall keep such records of property retirements as will reflect the service life of property which has been retired and aid in estimating probable service life by mortality, turnover, or other appropriate methods; and also such records as will reflect the percentage of salvage and costs of removal for property retired from each account, or subdivision thereof, for depreciable electric plant."

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

Answer:

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

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

No. 67 - EG

Question:

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

Answer:

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

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

No. 68 - EG

Question:

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

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

The construction had been substantially completed when service

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

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

Answer:

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

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

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

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

No. 69 - G

Question:

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

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

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

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

Answer:

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

No. 70 - E

Question:

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

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

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

Answer:

A. Under conditions stated in paragraph A:

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

B. Under conditions stated in paragraph B:

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

Street Lighting and Signal Systems.

- (2) Revenues should be credited to Account 444 - Public Street and Highway Lighting.
- (3) Operation expenses should be charged to Account 585 - Street Lighting and Signal System Expenses.
- (4) Maintenance expenses should be charged to Account 596 - Maintenance of Street Lighting and Signal Systems.

No. 71 - EG

Question:

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

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

Answer:

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

No. 72 - E

Question:

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

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

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

What is the correct prescribed accounting for maintenance of capacitors?

Answer:

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

- (1) Delete "and capacitor installations" from item 2(a) of account 593; insert "and" before "line breakers" in same item.
- (2) Insert "and other equipment" after the words "distribution line transformers" in text of account 595.

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

No. 73 - EG

Question:

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

Answer:

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

No. 74 - EG

Question:

What fees and expenses of consultants are includible in Account

923 - Outside Services Employed?

Answer:

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

No. 75 - G

Question:

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

Answer:

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

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

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

No. 76 - EG

Question:

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

Answer:

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

No. 77 - EG

Question:

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

- A. Is software a capital item?
- B. Is a purchased Resource or Materials Management System package a capital item?
- C. If so, in what accounts should these items be recorded?
- D. What is the normal life for depreciation purposes?
- E. Do the guidelines for expensing and capitalizing maintenance and updating costs that apply to other plant equipment apply to these items also?

Answer:

- A. Yes, software should be capitalized with the expensing of maintenance and nominal upgrades.
- B. Yes, a purchased resource or materials management system should be capitalized if the costs exceed a specified dollar limit and the software has an extended useful life.
- C. The Uniform System of Accounts does not currently have an account for computer software; however, it would be appropriate to include the capitalized amounts in a sub-account of Account 391 - Office Furniture and Equipment.
- D. The normal life for depreciation purposes would vary significantly based upon the type of software and could range from 5 to 10 years.
- E. The guidelines for expensing and capitalizing maintenance and updating costs that apply to other plant equipment should also apply to software, i.e., any major updates requiring significant capital outlay should require a

retirement and an addition to the software account.

No. 78 - EG

Question:

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

Answer:

Yes.

No. 79 - EG

Question:

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

Answer:

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

No. 80 - EG

Question:

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

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

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

Answer:

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

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

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

No. 81 - G

Question:

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

Answer:

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

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

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

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

No. 82 - EG

Question:

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

Answer:

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

No. 83 - EG

Question:

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

Answer:

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

being reasonable under the circumstances.

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

No. 84 - E

Question:

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

Answer:

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

No. 85 - G

Question:

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

Answer:

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

No. 86 - EG

Question:

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

Answer:

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

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

No. 87 - G

Question:

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

Answer:

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

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

No. 88 - EG

Question:

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

Answer:

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

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

1. fines or penalties related to judicial or administrative decree imposed by governmental authorities,
2. legal fees reimbursed to plaintiffs,
3. in-house and outside legal costs in unsuccessful defense against charges of discriminatory practices,
4. damage awards to plaintiffs
5. duplicate labor cost such as back pay, bonus or other pay awards to plaintiffs where other employees have already been paid by the utility for prior services, and
6. cost of reporting, training and recruiting undertaken as a result of a court order, administrative decree or settlement which

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

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

No. 89 - E

Question:

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

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

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

Answer:

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

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

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

No. 90 - E

Question:

What is the proper treatment of company consumed energy?

Answer:

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

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

