

Resolution Regarding Notice of the Federal Energy Regulatory  
Commission's Proposed Rulemaking on Depreciation Accounting

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**WHEREAS,** The Federal Power Act gives the Federal Energy Regulatory Commission (FERC) authority over the accounting practices of public utilities and licensees including the determination of depreciation rates for wholesale purposes; and

**WHEREAS,** The States and territories generally adopt the current Uniform System of Accounts (USA) and accounting rules by reference to simplify the regulatory burden; and

**WHEREAS,** The USA and accounting rules are the starting point in the States' and territories' determination of revenue requirements under traditional rate-making methodologies and for the transition to a competitive market; and

**WHEREAS,** Depreciation expense represents a significant portion of the total cost of providing electric utility service and therefore is of concern to the States, territories, and the FERC; and

**WHEREAS,** The USA does not require utilities to file regular depreciation studies with FERC for approval of revised depreciation rates; and

**WHEREAS,** The USA does not currently specify a methodology for the determination of depreciation rates; and

**WHEREAS,** There are several generally accepted methods under depreciation accounting for allocating costs (deferred, accelerated, and straight-line); and

**WHEREAS**, Depreciation is a process of cost allocation and not of valuation whose primary objective is to allocate, in a systematic and rational manner, the cost of utility property to the periods during which the property is used in utility operations; and

**WHEREAS**, The purpose of depreciation accounting is not to achieve a desired financial objective or to adjust utility plant balances to market value; and

**WHEREAS**, The straight-line concept is the most simple and most predominant method used by utilities and sanctioned by most regulatory commissions; and

**WHEREAS**, The FERC issued a Notice of Proposed Rulemaking (NOPR), in Docket No. RM99-7-000, to amend the General Instructions of 18 CFR Part 101 to establish criteria for determining depreciation rates for accounting purposes, and

**WHEREAS**, The amendment will set forth uniform standards based on the straight-line method of depreciation and the assets' estimated useful service lives for determining depreciation for accounting purposes; and

**WHEREAS**, The FERC issued a NOPR in Docket No. RM99-2-000 proposing "flexible depreciation" and shorter lives as incentives for utilities to join Regional Transmission Organizations; *now therefore be it*

**RESOLVED**, That the Board of Directors of the National Association of Regulatory Utility Commissioners (NARUC) convened in its March 2000 Winter Meeting in Washington

D.C., supports the FERC's proposed rulemaking in Docket No. RM99-7-000; *and be it further*

**RESOLVED**, That the FERC should clarify that the term "useful service life" includes the "average service life" and "remaining life" procedures; *and be it further*

**RESOLVED**, That the FERC should clarify that a straight-line method is one which allocates the cost of depreciable property to expense in equal charges over the property's useful service life; *and be it further*

**RESOLVED**, That the FERC should examine the affect that regulatory assets or liabilities created as a result of differences between depreciation accounting and revenue rates may have on stranded costs; *and be it further*

**RESOLVED**, That the FERC should clarify that the NOPR effects only the wholesale jurisdiction; *and be it further*

**RESOLVED**, That the FERC should reconcile its NOPR in Docket No. RM99-2-000 with the NOPR on depreciation accounting.

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Sponsored by the Committee on Finance and Technology  
Adopted by the NARUC Board of Directors, March 8, 2000.