BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF SOUTH DAKOTA

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IN THE MATTER OF THE APPLICATION OF THE SOUTH DAKOTA INTRASTATE PIPELINE COMPANY FOR APPROVAL OF INITIAL RATES AND TARIFFS.	))))	**STAFF'S INITIAL BRIEF** **(NG92-005)**

The cost of service hearing in Docket NG92-005, South Dakota Intrastate Pipeline Company (SDIPC), was held on December 17, 1992. Testimony was received from SDIPC, Montana-Dakota Utilities Co. (MDU), and the Commission Staff. While there were many issues in dispute prior to the hearing, a number of them appeared to be either substantially resolved during the hearing, or limited in impact. It was therefore informally decided to brief only those issues which either remained unresolved or which had a substantial effect on the rates to be paid for SDIPC service. Those issues appear to be: 1) Rate design, 2) Depreciation, and 3) Cost of service inclusion of the interest on short-term debt used to cover cash flow requirements in the first five years of operation.

RATE DESIGN

Staff did not, either in prefiled testimony or at hearing, present detailed analyses or discussion of SDIPC's proposed rate design. SDIPC had initially filed one rate based on volumes only. In its rebuttal filing SDIPC altered its requested rate. The rebuttal-offered rate was comprised of both demand and volume components. One day later SDIPC revised its rebuttal filing by again reflecting a rate based on volumes only. However, SDIPC did propose one major change - a minimum take provision - which tends to shift business risk to the distributor.

Staff has less concern about the rate design issue as compared to the cost of service issues due to necessary interaction, with regard to rate design, between the distributor(s) and SDIPC. This rate obviously is not the rate to the ultimate consumer, and there should be and is a burden placed upon any potential distributor to relate rate design wishes to the Commission. The Staff specifically encouraged MDU and SDIPC to further discuss and potentially settle any rate design issues, subject to Staff review and Commission approval. (TR 127, Lines 7-13). While it would be incorrect to state that Staff is not concerned about rate design, Staff does believe that the two parties doing business (SDIPC and MDU) should narrow the scope of the rate design discussion. The fact that SDIPC is contemplating only one rate applicable to all tends to eliminate any inter-customer class rate design concerns, the type of concerns that are normally the focus of further analysis.

Staff has clearly stated (TR 127, Lines 14-25; TR 128, Lines 1-4) that it is concerned about how any potential rate design will distribute the risk between pipeline and distributor. Staff believes that this Commission should not order any rate design which would place an unfair and excessive risk burden on either business.

DEPRECIATION

In Bluefield Co. v. Pub. Serv. Comm., 262 U.S. 679, 43 S. Ct. 675, 67 L. Ed. 1176 (1923) the U.S. Supreme Court held:

"A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings which are attended by corresponding risks and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures." 262 U.S. 692-93, 43 S. Ct. 679.

This holding has continued to be recognized as the correct statement of the rule as to what a reasonable rate of return is. See: Northern States Power Co. v. Public Service Com'n, 13 N.W.2d 779, 783 (ND 1944) and K. N. Energy, Inc. v. City of Scottsbluff, 447 N.W.2d 227, 239 (NB 1989).

Applying this principle in resolving a depreciation issue, the Iowa Supreme Court stated:

"It is inequitable to refuse to permit the company to recover fair value over the remaining service life of the property. It is just as inequitable to require the consumer to pay higher rates because the company has depreciated the property at too fast a rate. If the remaining life exceeds the present rate of depreciation, the rate should be reduced in order that full recovery will not be achieved prior to the end of the service life." Iowa Public Service Co. v. Sioux City, 128 N.W.2d 248 (Iowa 1964).

It is difficult to conceive of a conclusion more apropos to the depreciation issue in this case. SDIPC contends that any depreciation schedule in excess of 20 or 25 years will doom the project, yet even SDIPC estimates the useful life of the pipeline to be 50+ years. Thus SDIPC is proposing the Commission approve an accelerated depreciation schedule for the benefit of the financiers and stockholders but at the expense of the ratepayers. This is hardly the balancing of investor and consumer interests necessary in fixing just and reasonable rates.

It is quite clear that SDIPC is simply seeking for the Commission to ignore the physical life of the pipeline when determining the appropriate depreciable life. SDIPC's representations that somehow FERC is establishing new depreciable life benchmarks is without merit. The only FERC verbiage offered by SDIPC to support the contention that pipelines are now being depreciated more rapidly by the FERC was found on pages 14 and 15 of Szklarski's originally filed testimony (Exhibit 1). SDIPC cited the 5% depreciation rate ordered in Iroquois Gas Transmission System Docket Nos. CP89-629 et al. SDIPC then noted that the FERC decision was primarily based upon a Canadian 15-year export license (which is still five years less than the implied 20-year depreciable life), and that the new Iroquois pipeline would serve an incremental market of unproven size and durability.

The FERC decision has absolutely no applicability in this docket even if it was somehow controlling for this Commission, which of course it isn't. The SDIPC pipeline is certainly not subject to a foreign government's export license. In fact, SDIPC is situated to take advantage of a multiplicity of supply sources ranging from the Rocky Mountains to the Gulf Coast, and including Canada if they so choose. Furthermore, the market to be served is certainly not an "incremental" market. It is a core market of residential and small commercial and industrial concerns. Incremental markets and markets for the other new pipelines mentioned but unsubstantiated by SDIPC as having relatively short depreciable lives (25 years or less) may very well dictate variations on depreciable lives. This pipeline is not based upon one or few large industrial customers however, and the uncertain viability of those industries. This pipeline has a broad range of supply sources and core vs. incremental customers.

FERC obviously considers a 40-year life or longer still appropriate. MDU Witness Ball testified in answer to a question posed by Commission Counsel Eidahl that Williston Basin (MDU's transmission business successor) has not "...changed their depreciation rates substantially from the depreciation rates you saw for the transmission investment as shown I believe in the work paper from the old docket." (TR 122, Lines 15-18) The docket he referred to is the one relied upon by Staff Witness Rislov, Montana-Dakota Utilities Co., Docket F-3445.

We know and Mr. Szklarski seems to agree that pipelines are not wearing out any faster than they did ten years ago (the approximate date of the F-3445 depreciation rates) (TR 52, Lines 8 and 9). Common sense dictates that this line if it survives 20 years will certainly be in an excellent position to survive an additional 20 plus years, as markets will have been developed and natural gas appears to be a plentiful fuel. We know the physical life of the pipeline is likely to be extended beyond the 40-year depreciable life Staff has recommended, and we know that SDIPC benefits from a broad array of potential supply options. That leaves us with no alternative for SDIPC's request for a 20-year depreciable life other than accelerated capital recovery and accelerated cash flow in line with the Harris' Bank's desires as depicted by SDIPC. This is clearly indicated by Szklarski on the record, as follows:

1) (TR 51, Lines 7-12) "As a matter of fact, I don't think there is any way that this pipeline can be built because of the financing and cash flow that we need to pay out-of-pocket cost that we could build this pipeline with a 40 year life. Not be able to generate cash flow, not going to work."

2) (TR 52, Lines 9 and 10) "I think what we are losing sight of here is that this is not an issue of physical life, it's an issue of economic life."

3) (TR 53, Lines 17-24) "Today I think that we need the shorter life. 40 years is just too long. Just not going to provide the cash flow that we need in order to finance the project. I think that was made fairly clear from the letter from Harris Bank. We need the cash flow. If we go with Mr. Rislov's proposal we basically lose $300,000 a year in cash flow. We won't be able to meet our obligations."

4) (TR 77, Lines 11-17) "....I specifically spoke to the banker and he was concerned with us proposing 20 years, he thought 10 or 15 was more reasonable. He had spoken to other lenders as well. And so there may be other options, I don't know what they are, he was not very optimistic of doing anything beyond 20 years."

There are certainly more references in the record than those shown above, but those listed above leave little doubt about the basis of SDIPC's depreciation recommendations. Staff is concerned about the statement made by SDIPC Witness Szklarski in (3) above, which attempts to somehow leave the impression that Staff's depreciation recommendation is leaving SDIPC $300,000 short. Note that Szklarski used the term "cash flow". Cash flow and cost of service are entirely different measures. Cash flow requirements are not cost of service requirements. Cash flow problems for SDIPC in this docket are not due to depreciation, but are related to the levelized cost of service and immature markets. SDIPC requested the levelized cost of service. Staff has fairly addressed the cost of service requirements, one of which is depreciation. Staff has included a depreciation allowance which is far superior in matching the cost of service with service benefits. SDIPC's requested depreciation allowance is simply not designed to match the true cost of service with service benefits. SDIPC's depreciation is designed solely to meet the "needs" of the ownership and the bankers, i.e., rapid recovery of investment.

What further exacerbates, from a customer standpoint, the effect of allowing an unreasonably high rate of depreciation is SDIPC's stated request for a "management fee" once the plant has become 80% depreciated. Under SDIPC's scenario, the plant investment would be fully recovered in 20 years, and thereafter SDIPC would still be earning a nominal "return" on 20% of the plant balance. Undoubtedly this increases the financial reward for gaining a high depreciation rate. The issue of the management fee has been dropped for purposes of this docket, but there is little question that SDIPC intends to pursue the issue when the time is right.

Depreciation is for the most part a timing issue. A timing issue is one where there is no disagreement over the appropriateness of recovery of the full cost, but where there is disagreement over what period of time the cost should be recovered. Staff is not recommending disallowance. Staff is recommending that the recovery of the expense be closely matched to the service life of the asset. SDIPC has given no recognition to the matching of service life with service costs. SDIPC has attempted to attach, through vague and unsubstantiated references and inapplicable comparisons, some theoretical justification to the 20-year depreciable life. They've failed simply because there is no reasonable cost of service justification for the high depreciation rate. What was and has become even more apparent is that SDIPC's depreciation is designed to be: 1) A cash flow tool, 2) A way to rapidly recover investment and eliminate risk, and 3) A quicker path to the "management fee" and higher overall ownership returns over the actual life of the pipeline.

JUDICIAL NOTICE

During the hearing, there was reference to the FERC system of accounts (TR 48, Lines 3 - 5). The answer to the question was not responsive. Therefore, pursuant to SDCL 1-26-19(3), Staff requests the Commission take official (judicial) notice of the attached extract of the Code of Federal Regulations (18 CFR Ch. 1, Part 201, 4-1-92 Edition) (attachment A). Specifically, Staff requests the Commission note that under Gas Plant Accounts (page 239) item 4. "Transmission Plant" (page 240) includes account No. 367 Mains and also that paragraph A under 367 Mains (page 257) states: "This account shall include the cost installed of transmission system mains."

Since the briefing schedule includes rebuttal briefs, the other parties have an opportunity to object or to refute the officially noticed matters.

It is important that the Commission take official notice of this matter for the following reasons:

In his rebuttal testimony, Mr. Szklarski stated: "I disagree with his (Mr. Rislov's) classification of SDIP's facilities as mains. This is a term which is applied to distribution systems, not pipelines. SDIP's facilities are transmission plant." (Exhibit 3, Lines 158 - 160). Then, despite repeated questions pointing out that account 367 Mains is a transmission plant account (TR 46, L 16 thru TR 48, L 20), Mr. Szklarski denied that his original statement was based on his misperception that MDU was a distribution system at the time of the F-3445 study. (TR 49, L 8). In his answer (TR 49, Lines 8 -24) Mr. Szklarski side-steps the question by proposing that "mains" may be either a transmission or distribution account, which is not the issue. The issue and the misperception created by Mr. Szklarski's original statement is that Mr. Rislov used an incorrect account classification for determination of depreciation. This is simply not true.

The proposed pipeline to be operated by SDIPC, were it subject to FERC jurisdiction and accounting, would be categorized exactly the same as the MDU mains in Docket F-3445 as relied upon by Mr. Rislov for determination of the appropriate depreciation rate in this docket.

SDIPC Witness Szklarski attempted to further confuse the depreciation issue by stating (TR 50, Lines 5-7) that "The document I received and this is part of that document, was hardly legible, I did not do a thorough study of that particular document." The document in question, Exhibit 12, was both legible in content and clearly marked as part of the filing requirements data (Statement J) in Docket F-3445. SDIPC was given a copy of the document well in advance of the hearing, and no word of complaint regarding the condition of the document was ever received by Staff prior to the hearing.

Szklarski continued his attack on Exhibit 12 (TR 50, Lines 7-25) by attaching significance to the fact that F-3445 was a settled docket, and that somehow due to either the settlement or the nature of the document, that Exhibit 12 was either inappropriate or incomplete or both. What Mr. Szklarski failed to note was that the depreciation rates relied upon by Mr. Rislov were filing requirements data submitted by MDU. Mr. Szklarski should have been familiar with the filing requirements of Statement J as he himself filed Statement J data in this docket. Mr. Szklarski should also know that Statement J data is filed by the company based upon the company's analysis. Statement J data does not reflect Staff recommendations, settlement negotiations, or any docket-specific final order by this Commission. Therefore Mr. Rislov's usage of MDU's requested depreciation rates as filed in Docket F-3445 is accurately described as conservative from a company viewpoint, and favorable for SDIPC's cause as SDIPC is seeking shorter depreciable lives.

To avoid confusion and to resolve the issue with finality, the Commission should take official notice of the CFR provisions. Mr. Rislov properly considered Mains as a part of transmission plant in arriving at his recommendations regarding depreciation.

INTEREST ON SHORT-TERM LOANS

In K. N. Energy, Inc. v City of Scottsbluff, Supra., there was testimony that some public utility commissions and FERC have included short-term debt in capital structure for three reasons: if the short-term debt is a substantial, necessary and regular portion of a company's financing; if the short-term debt finances fixed assets includable in the rate base; and if it is continuous in that it is rolled over regularly in similar amounts from time to time. 447 N.W.2d 227, 238 (NB 1989).

However, like the plaintiff in that case, SDIPC's planned use of short-term debt does not meet any of these tests but rather is "to finance fluctuating cash-flow needs." Id.

As Mr. Szklarski testified:

"...before I revised my rebuttal testimony I proposed the rate would be equivalent to $2.38. Subsequent revision what happened is that we by not collecting the dollars as quick as we would have in covering our out-of-pocket cost, resulted in a situation where we actually had to borrow additional capital on a short term basis, subsequently repay.

"What we did, included that interest over this about five-year period and added it to the cost of service, which had the effect of actually increasing that rate...." (TR 31, Lines 14 - 25).

Staff is cognizant of SDIPC's perceived need to achieve a certain level of cash flow in the early years of the pipeline. Staff was also cognizant of SDIPC's perceived need for levelized rates. SDIPC has now requested minimum takes become a part of rate design. SDIPC has requested that its customers pay interest (an equity infusion as it is above and beyond the cost of service) on money borrowed to cover early years cash flow requirements. SDIPC wants accelerated depreciation and rapid recovery of their investment. In short, SDIPC has attempted to justify on a cost of service basis that which cannot be justified on cost of service principles.

Like the Nebraska Supreme Court, the Commission should conclude that "[f]luctuating short-term debt is not a material factor in evaluation of the risk of the company because it is a temporary source of financing." Id. at 240. Interest on short-term debt is a burden which should be borne by the stockholders and investors not the ratepayers.

CONCLUSION

Staff realizes that a new utility may require certain concessions in the early years of operation. SDIPC should simply tell the Commission so, rather than continuing its effort to develop a body of new regulatory precedent. Staff has attempted to demonstrate a reasonable revenue requirement based upon accepted ratemaking principles. Staff has adopted SDIPC's levelized rate concept in order to improve the marketability of initial gas throughput. However, Staff cannot agree with SDIPC's attempt to rewrite South Dakota ratemaking principles based upon what's expedient for SDIPC. SDIPC should be required to clearly state and note their unusual needs. If the Commission then chooses to approve any or all of SDIPC's requests, the Staff won't be faced with the task of rewriting the South Dakota regulatory "rule book". Staff is also concerned that customers will later receive like benefits for any concessions they would make now. For example, if this Commission chose to adopt rapid depreciation in this docket, would SDIPC agree to a more realistic depreciation rate once the company is out of the start-up phase?

In summary, the Commission is faced with clear choices. SDIPC's depreciation is nothing more than a "plugged" number designed to generate cash flow. If this is what SDIPC feels it needs, and apparently SDIPC does feel the need, SDIPC should freely admit it. If the Commission feels it necessary to adopt, for at least the short-term, SDIPC's recommendation in order to get the pipeline up-and-running, the Commission can make that choice. Staff admittedly has no "crystal ball" that clearly would prove this choice to be in error. Ultimately, regardless of what SDIPC requests or the Commission approves, the natural gas cannot be priced above market prices for competing fuels or natural gas will not be sold. The Commission should be aware that we have not yet approved any distribution rates, and any part of the "pie" given to SDIPC is part of the "pie" to be foregone by the distributors. Any rewards, gains, and risks must be shared by both the distributor and the pipeline supplier.

Dated at Pierre, South Dakota, this 7TH day of January, 1993.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by facsimile.

By: Stephanie Hocking

Date: January 7, 1993

Gustave Jacob

GUSTAVE F. JACOB
Staff Attorney

SUBCHAPTER F—ACCOUNTS, NATURAL GAS ACT

PART 201—UNIFORM SYSTEM OF ACCOUNTS PRESCRIBED FOR NATURAL GAS COMPANIES SUBJECT TO THE PROVISIONS OF THE NATURAL GAS ACT

AUTHORITY: Natural Gas Act, 15 U.S.C. 717-717w (1982); Natural Gas Policy Act of 1978, 15 U.S.C. 3301-3432 (1982); Department of Energy Organization Act, 42 U.S.C. 7101-7352 (1982); E.O. 12009, 3 CFR 1978 Comp., p. 142.

SOURCE: Order 219, 25 FR 5616, June 21, 1960.

EDITORIAL NOTE: For FEDERAL REGISTER citations affecting Part 201, see the List of CFR Sections Affected in the Finding Aids section of this volume.

NOTE: Order 141, 12 FR 8504, Dec. 19, 1947, provides in part as follows:

Prescribing a system of accounts for natural gas companies under the Natural Gas Act. The Federal Power Commission acting pursuant to authority granted by the Natural Gas Act (58) Stat. 821, as amended; 15 U.S.C. and Sup. 717 et seq.), particularly sections 8(a), 10(a) and 16 thereof, and finding such action necessary and appropriate for carrying out the provisions of said Act, ordered that:

(a) The accompanying system of accounts, entitled "Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act," and the rules and regulations contained therein, be adopted;

(b) Said system of accounts and said rules and regulations contained therein be and the same are hereby prescribed and promulgated as the system of accounts and rules and regulations of the Commission to be kept and observed by natural gas companies subject to the jurisdiction of the Commission, to the extent and in the manner set forth therein;

(c) Said system of accounts and rules and regulations therein contained as to all natural gas companies now subject to the jurisdiction of the Commission, became effective on January 1, 1940, and as to any natural gas company which may hereafter become subject to the jurisdiction of the Commission, they shall become effective as of the date when such natural gas company becomes subject to the jurisdiction of the Commission.

Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act

Definitions

When used in this system of accounts:

1. "Accounts" means the accounts prescribed in this system of accounts.

2. "Actually issued," as applied to securities issued or assumed by the utility, means those which have been sold to bona fide purchasers for a valuable consideration, those issued as dividends on stock, and those which have been issued in accordance with contractual requirements direct to trustees of sinking funds.

3. "Actually outstanding," as applied to securities issued or assumed by the utility, means those which have been actually issued and are neither retired nor held by or for the utility; provided, however, that securities held by trustees shall be considered as actually outstanding.

4. "Amortization" means the gradual extinguishment of an amount in an account by distributing such amount over a fixed period, over the life of the asset or liability to which it applies, or over the period during which it is anticipated the benefit will be realized.

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

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

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

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

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

A. For each retirement unit;

(1) The name or description of the unit, or both;

(2) The location of the unit;

(3) The date the unit was placed in service;

(4) The cost of the unit as set forth in Plant Instructions 2 and 3 of this part; and

(5) The plant control account to which the cost of the units is charged; and

B. For each category of mass property;

(1) A general description of the property and quantity;

(2) The quantity placed in service by vintage year;

(3) The average cost as set forth in Plant Instructions 2 and 3 of this part; and

(4) The plant control account to which the costs are charged.

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

10. "Cost of removal" means the cost of demolishing, dismantling, tearing down or otherwise removing gas plant, including the cost of transportation and handling incidental thereto.

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

12. A. "Depletion," as applied to natural gas producing land and land rights, means the loss in service value incurred in connection with the exhaustion of the natural resource in the course of service.

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

13. "Development costs", in the case of Major natural gas companies, when used with respect to hydrocarbons, include all costs incurred in the readying of hydrocarbon deposits for commercial production including developmental well drilling costs.

14. "Discount", as applied to the securities, issued or assumed by the utility, means the excess of the par (stated value of no-par stocks) or fact value of the securities plus interest or dividends accrued at the date of the sale over the cash value of the consideration received from their sale.

15. "Exploration costs", in the case of Major natural gas companies, include all costs incurred in proving the existence of hydrocarbon deposits including geological, geophysical, lease acquisition (including delay rentals),

ATTACHMENT A

tions affect taxable income and the periods in which they enter into the determination of pretax accounting income.

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

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

283 Accumulated deferred income taxes—Other.

A. This account shall include all credit tax deferrals resulting from the adoption of the principles of comprehensive interperiod income tax allocation described in General Instruction 18 of this system of accounts other than those deferrals which are includible in Accounts 281, Accumulated Deferred Income Taxes—Accelerated Amortization Property and 282, Accumulated Deferred Income Taxes—Other Property.

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

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

D. Records with respect to entries to this account, as described above, and the account balance, shall be so maintained as to show the factors of calculation with respect to each annual amount of the item or class of items.

E. The utility is restricted in its use of this account to the purposes set forth above. It shall not transfer the balance in the account or any portion thereof to retained earnings or to any other account or make any use thereof except as provided in the text of this account, without prior approval of the Commission. Upon the disposition by sale, exchange, transfer, abandonment or premature retirement of items on which there is a related balance herein, this account shall be charged with an amount equal to the related income tax effect, if any, arising from such disposition and account 411.1, Provision For Deferred Income Taxes—Credit, Utility Operating Income, or 411.2, Provision For Deferred Income Taxes—Credit, Other Income and Deductions, as appropriate, shall be credited. When the remaining balance, after consideration of any related tax expenses, is less than $25,000, this account shall be charged and account 411.1 or 411.2, as appropriate, credited with such balance. If after consideration of any related income tax expense, there is a remaining amount of $25,000 or more, the Commission shall authorize or direct how such amount shall be accounted for at the time approval for the disposition of accounting is granted.

When plant is disposed of by transfer to a wholly owned subsidiary, the related balance in this account shall also be transferred. When the disposition relates to retirement of an item or items under a group method of depreciation where there is no tax effect in the year of retirement, no entries are required in this account if it can be determined that the related balance would be necessary to be retained to offset future group item tax deficiencies.

Gas Plant Accounts

1. Intangible Plant

301 Organization.
302 Franchises and consents.
303 Miscellaneous intangible plant.

2. Production Plant

A. MANUFACTURED GAS PRODUCTION PLANT

304 Land and land rights.
305 Structures and improvements.
306 Boiler plant equipment.
307 Other power equipment.
308 Coke ovens.
309 Producer gas equipment.
310 Water gas generating equipment.
311 Liquefied petroleum gas equipment.
312 Oil gas generating equipment.
313 Generating equipment—Other processes.
314 Coal, coke, and ash handling equipment.
315 Catalytic cracking equipment.
316 Other reforming equipment.
317 Purification equipment.
318 Residual refining equipment.
319 Gas mixing equipment.
320 Other equipment.

B. NATURAL GAS PRODUCTION PLANT

B.1. Natural Gas Production and Gathering Plant

325.1 Producing lands.
325.2 Producing leaseholds.
325.3 Gas rights.
325.4 Rights-of-way.
325.5 Other land and land rights.
326 Gas well structures.
327 Field compressor station structures.
328 Field measuring and regulating station structures.
329 Other structures.
330 Producing gas wells—Well construction.
331 Producing gas wells—Well equipment.
332 Field lines.
333 Field compressor station equipment.
334 Field measuring and regulating station equipment.
335 Drilling and cleaning equipment.
336 Purification equipment.
337 Other equipment.
338 Unsuccessful exploration and development costs.

B.2. Products Extraction Plant

340 Land and land rights.
341 Structures and improvements.
342 Extraction and refining equipment.
343 Pipe lines.
344 Extracted product storage equipment.
345 Compressor equipment.
346 Gas measuring and regulating equipment.
347 Other equipment.

3. Natural Gas Storage and Processing Plant

A. UNDERGROUND STORAGE PLANT

350.1 Land.
350.2 Rights-of-way.
351 Structures and improvements.
352 Wells.
352.1 Storage leaseholds and rights.

352.2 Reservoirs.
352.3 Nonrecoverable natural gas.
353 Lines.
354 Compressor station equipment.
355 Measuring and regulating equipment.
356 Purification equipment.
357 Other equipment.

B. OTHER STORAGE PLANT

360 Land and land rights.
361 Structures and improvements.
362 Gas holders.
363 Purification equipment (Major only).
363.1 Liquefaction equipment (Major only).
363.2 Vaporizing equipment (Major only).
363.3 Compressor equipment (Major only).
363.4 Measuring and regulating equipment (Major only).
363.5 Other equipment.

C. BASE LOAD LIQUEFIED NATURAL GAS TERMINALING AND PROCESSING PLANT

364.1 Land and land rights (Major only).
364.2 Structures and improvements (Major only).
364.3 LNG processing terminal equipment (Major only).
364.4 LNG transportation equipment (Major only).
364.5 Measuring and regulating equipment (Major only).
364.6 Compressor station equipment (Major only).
364.7 Communication equipment (Major only).
364.8 Other equipment (Major only).

4. TRANSMISSION PLANT

365.1 Land and land rights.
365.2 Rights-of-way.
366 Structures and improvements.
367 Mains.
368 Compressor station equipment.
369 Measuring and regulating station equipment.
370 Communication equipment.
371 Other equipment.

5. DISTRIBUTION PLANT

374 Land and land rights.
375 Structures and improvements.
376 Mains.
377 Compressor station equipment.
378 Measuring and regulating station equipment—General.
379 Measuring and regulating station equipment—City gate check stations.
380 Services.
381 Meters.
382 Meter installations.
383 House regulators.
384 House regulatory installations.
385 Industrial measuring and regulating station equipment.
386 Other property on customers' premises.
387 Other equipment.

6. GENERAL PLANT

389 Land and land rights.
390 Structures and improvements.
391 Office furniture and equipment.
392 Transportation equipment.
393 Stores equipment.
394 Tools, shop and garage equipment.
395 Laboratory equipment.
396 Power operated equipment.
397 Communication equipment.
398 Miscellaneous equipment.
399 Other tangible property.

Gas Plant Accounts

301 Organization.

This account shall include all fees paid to Federal or State governments for the privilege of incorporation and expenditures incident to organizing the corporation, partnership, or other enterprises and putting it into readiness to do business.

ITEMS

1. Cost of obtaining certificates authorizing an enterprise to engage in the public utility business.
2. Fees and expenses for incorporation.
3. Fees and expenses for mergers or consolidations.
4. Office expenses incident to organizing the utility.
5. Stock and minute books and corporate seal.

Note A: This account shall not include any discounts upon securities issued or assumed; nor shall it include any costs incident to negotiating loans, selling bonds or other evidences of debt, or expenses in connection with the authorization, issuance, or sale of capital stock.

Note B: Exclude from this account and include in the appropriate expense account the cost of preparing and filing papers in connection with the extension of the term of incorporation unless the first organization costs have been written off. When charges are made to this account for expenses incurred in mergers, consolidations, or reorganizations, amounts previously included herein or in similar accounts in the books of the companies concerned shall be excluded from this account.

302 Franchises and consents.

A. This account shall include amounts paid to the Federal Government, to a State or to a political subdivision thereof in consideration for franchises, consents, or certificates, running in perpetuity or for a specified term of more than 1 year, together with necessary and reasonable expenses incident to procuring such franchises, consents, or certificates of permission and approval, including expenses of organizing and merging separate corporations, where statutes require, solely for the purpose of acquiring franchises.

B. If a franchise, consent, or certificate is acquired by assignment, the charge to this account in respect thereof shall not exceed the amount paid therefor by the utility to the assignor, nor shall it exceed the amount paid by the original grantee, plus the expense of acquisition to such grantee. Any excess of the amount actually paid by the utility over the amount above specified shall be charged to account 426.5, Other Deductions.

C. When any franchise has expired, the book cost thereof shall be credited hereto and charged to account 426.5, Other Deductions, or to account 111, Accumulated Provision for Amortization and Depletion of Gas Utility Plant (For Nonmajor Companies; account 110, Accumulated Provisions for Depreciation, Depletion and Amortization of Gas Utility Plant), as appropriate.

D. Records supporting this account shall be kept so as to show separately the book cost of each franchise or consent.

NOTE: Annual or other periodic payments under franchises shall not be included herein but in the appropriate operating expense account.

303 Miscellaneous intangible plant.

A. This account shall include the cost of patent rights, licenses, privileges, and other intangible property necessary or valuable in the conduct of the utility's gas operations and not specifically chargeable to any other account.

B. When any item included in this account is retired or expires, the book cost thereof shall be credited hereto and charged to account 426.5, Other Deductions, or account 111, Accumulated Provision for Amortization and Depletion of Gas Utility Plant (For Nonmajor Companies; account 110, Accumulated Provisions for Depreciation, Depletion and Amortization of Gas Utility Plant), as appropriate.

C. This account shall be maintained in such a manner that the utility can furnish full information with respect to the amounts included herein.

304 Land and land rights.

This account shall include the cost of land and land rights used in connection with manufactured gas production. (See gas plant instruction 7.)

305 Structures and improvements.

This account shall include the cost of structures and improvements used in connection with manufactured gas production. (See gas plant instruction 8.)

NOTE: Include relief holders in this account.

306 Boiler plant equipment.

This account shall include the cost installed of furnaces, boilers, steam and feed water piping, boiler apparatus, and accessories used in the production of steam at gas production plants.

ITEMS

1. Accumulators.
2. Air preheaters, including fans and drives, and ducts not part of building.
3. Ash disposal equipment, including sluiceways not part of a building, pumps and piping, crane, ash bucket conveyor and drives, ash cars, etc.
4. Belt conveyors, including drives.
5. Blast gate valves.
6. Blow-down tanks and piping.
7. Boilers, including valves attached thereto, casings, safety valves, soot blowers, soot hoppers, superheaters, and feed water regulators.
8. Cinder and dust catcher system, including mechanical and electric types.
9. Coal and coke handling equipment, including hoppers, lorries, etc., used wholly for boilers.
10. Combustion control system, including all apparatus installed for the regulation and control of the supply of fuel or air to boilers.
11. Control apparatus.
12. Cranes, hoists, etc., wholly identified with apparatus listed herein.
13. Desuperheaters and reducing valves.

9. Oil fogging equipment.
10. Odorizing equipment.
11. Regulators or governors, including controls and instruments.
12. Stabilization equipment.
13. Structures of a minor or portable type.
14. Other equipment.

364.6 Compressor station equipment (Major only).

This account shall include the cost installed of compressor station equipment and associated appliances used in connection with liquefied natural gas operations prior to entrance of vaporized gas into the utility's transmission or distribution system.

ITEMS

1. Boiler plant, coal handling, and ash handling equipment for steam powered compressor station.
2. Compressed air system equipment.
3. Compressor equipment and driving units, including auxiliaries, foundations, guard rails, and enclosures, etc.
4. Electric system equipment, including generating equipment and driving units, power wiring, transformers, regulators, battery equipment, switchboard, etc.
5. Fire fighting equipment.
6. Gas lines and equipment, including fuel supply lines, cooling tower and pond and associated equipment, dehydrators, fuel gas mixers, special pipebends and connections, and associated scrubbers, separators, tanks, gauges, and instruments.
7. Laboratory and testing equipment.
8. Lubricating oil system, including centrifuge, filter, tanks, purifier, and lubricating oil piping, etc.
9. Office furniture and fixtures and general equipment such as steel lockers, first-aid equipment, gasoline dispensing equipment, lawn mowers, incinerators, etc.
10. Shop tools and equipment.
11. Water supply and circulation system, including water well, tank, water pipeline, cooling tower, spray fence, and water treatment equipment, etc., but not including water system equipment used solely for domestic and general use.
12. Other equipment.

364.7 Communication equipment (Major only).

This account shall include the cost installed of radio, telephone, microwave, and other equipment used wholly or predominantly in connection with the operation and maintenance of the liquefied natural gas system. (See also accounts 370 and 397, Communication Equipment.)

ITEMS

1. Carrier terminal equipment including repeaters, power supply equipment, transmitting and receiving sets.
2. Microwave equipment, including power supply equipment, transmitters, amplifiers, paraboloids, towers, reflectors, receiving equipment, etc.
3. Radio equipment, fixed and mobile, including antenna, power equipment, transmitter units.
4. Telephone equipment including switchboards, power and testing equipment, conductors, pole lines, etc.
5. Other equipment.

364.8 Other equipment (Major only).

This account shall include the cost installed of equipment used in liquefied natural gas operations, when not assignable to any of the foregoing accounts.

ITEMS

1. Garage and service equipment.
2. General tools, including power operated equipment.
3. Laboratory equipment.
4. Materials handling equipment.
5. Office furniture and equipment.
6. Power generation equipment.
7. Shop equipment.
8. Tools, other than small hand tools.
9. Other equipment.

365.1 Land and land rights.

This account shall include the cost of land and land rights except rights-of-way used in connection with transmission operations. (See gas plant instruction 7.)

365.2 Rights-of-way.

This account shall include the cost of rights-of-way used in connection with transmission operations. (See gas plant instruction 7.)

366 Structures and improvements.

A. This account shall include the cost in place of structures and improvements used in connection with transmission operations. (See gas plant instruction 8.)

B. This account shall be subdivided as follows:

366.1 Compressor station structures.

366.2 Measuring and regulating station structures.

366.3 Other structures.

367 Mains.

A. This account shall include the cost installed of transmission system mains.

B. The records supporting this account shall be so kept as to show separately the cost of mains of different sizes and types and of each tunnel, bridge, or river crossing.

ITEMS

1. Anti-freeze lubricating equipment.
2. Automatic valve operating mechanisms, including pressure tanks, etc.
3. By-pass assembly.
4. Caissons, tunnels, trestles, etc., for submarine mains.
5. Cathodic protection equipment.
6. Drip lines and pots.
7. Excavation, including shoring, bracing, bridging, pumping, backfill, and disposal of excess excavated material.
8. Foundations.
9. Gas cleaners, scrubbers, etc. when not part of compressor station or measuring and regulating equipment.
10. Leak clamps. (See gas plant instruction 10-C (1).)
11. Line pack gas.
12. Linewalkers' bridges.
13. Manholes.
14. Municipal inspection.
15. Pavement disturbed, including cutting and replacing pavement, pavement base, and sidewalks.
16. Permits.
17. Pipe coating.
18. Pipe and fittings.
19. Pipe laying.
20. Pipe supports.
21. Protection of street openings.
22. River, highway, and railroad crossings, including revetments, pipe anchors, etc.
23. Valves.
24. Welding.

368 Compressor station equipment.

This account shall include the cost installed of compressor station equipment and associated appliances used in connection with transmission system operations.

ITEMS

1. Boiler plant, coal handling and ash handling equipment for steam powered compressor station.
2. Compressed air system equipment.
3. Compressor equipment and driving units, including auxiliaries, foundations, guard rails and enclosures, etc.
4. Electric system equipment, including generating equipment and driving units, power wiring, transformers, regulators, battery equipment, switchboard, etc.
5. Fire fighting equipment.
6. Gas lines and equipment, including fuel supply lines, cooling tower and pond and associated equipment, dehydrators, fuel gas mixers, special pipe bends and connections, and associated scrubbers, separators, tanks, gauges and instruments.
7. Laboratory and testing equipment.
8. Lubricating oil system, including centrifuge, filter, tanks, purifier, and lubricating oil piping, etc.
9. Office furniture and fixtures and general equipment such as steel lockers, first-aid equipment, gasoline dispensing equipment, lawn mowers, incinerators, etc.
10. Shop tools and equipment.
11. Water supply and circulation system, including water well, tank, water piping, cooling tower, spray fence, and water treatment equipment, etc., but not including water system equipment solely for domestic and general use.

369 Measuring and regulating station equipment.

This account shall include the cost installed of meters, gauges, and other equipment used in measuring or regulating gas in connection with transmission system operations.

ITEMS

1. Automatic control equipment.
2. Boilers, heaters, etc.
3. Foundations, pits, etc.
4. Gas cleaners, scrubbers, separators, dehydrators, etc.
5. Gauges and instruments, including piping, fittings, wiring, etc., and panel boards.
6. Headers.
7. Meters, orifice or positive, including piping and connections.
8. Oil fogging equipment.
9. Odorizing equipment.
10. Regulators or governors, including controls and instruments.
11. Structures of a minor nature or portable type.

NOTE: Pipeline companies, including companies who measure deliveries of gas to their own distribution system, shall include in the transmission function classification city gate and main line industrial measuring and regulating stations.