Application No. 25-09-014
Exhibit No. SCGC-02-Atch
Witness: Catherine E. Yap

BEFORE THE
PUBLIC UTILITIES COMMISSION
OF THE
STATE OF CALIFORNIA

Application of SOUTHERN CALIFORNIA GAS COMPANY (U904G) and SAN DIEGO GAS & ELECTRIC COMPANY (U902G) for authority to revise their natural gas rates and implement storage proposals effective January 1, 2027 in this Cost Allocation Proceeding.	Application 25-09-014

Attachments A-D to the
Rebuttal Testimony of Catherine E. Yap
On Behalf of
Southern California Generation Coalition

June 15, 2026

Attachment A: FERC Docket No. RM02-7-000, Order No. 631 (Issued April 9, 2003)

Attachment B: 86FERC¶64,014, Dockets Nos. ER97-2355-000, et al., Presiding Administrative Law Judge (ALJ's) Initial Decision (issued March 31, 1999), excerpts.

Attachment C: A.22-05-015, SCG-30/SDG&E-34, Revised Direct Testimony of Angel Le and Paul Malin at WNL/PDM-29, excerpt.

Attachment D: 18CFR201, Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act, excerpt.

UNITED STATES OF AMERICA FEDERAL
ENERGY REGULATORY COMMISSION

Before Commissioners: Pat Wood, III, Chairman;
William L. Massey, and Nora Mead Brownell.

Accounting, Financial Reporting, and Rate Filing Requirements for Asset Retirement Obligations — Docket No. RM02-7-000

ORDER NO. 631

FINAL RULE (Issued

April 9, 2003)

I. INTRODUCTION

1. The Federal Energy Regulatory Commission (Commission) is revising its regulations to update the accounting, reporting and rate filing requirements. In a Notice of Proposed Rulemaking (NOPR) issued on October 30, 2002,[1] the Commission proposed to revise its Uniform Systems of Accounts[2] for public utilities and licensees,[3] natural gas

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[1] 67 FR 69816 (Nov. 19, 2002) and 67 FR 70890 (Nov. 27, 2002), IV FERC Stats. & Regs. ¶ 32,565 (Oct. 30, 2002).

[2] Section 301(a) of the Federal Power Act (FPA), 16 U.S.C. 825(a), section 8 of the Natural Gas Act (NGA), 15 U.S.C. 717g and section 20 of the Interstate Commerce Act (ICA) 49 App.U.S.C. 20 (1988), authorize the Commission to prescribe rules and regulations concerning accounts, records and memoranda as necessary or appropriate for the purposes of administering the FPA, NGA and the ICA. The Commission may prescribe a system of accounts for jurisdictional entities and, after notice and opportunity for hearing, may determine the accounts in which particular outlays and receipts will be entered, charged or credited.

[3] Part 101 Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act. See 18 CFR Part 101 (2002).

companies[4] and oil pipeline companies[5] by establishing uniform accounting requirements for the recognition of liabilities for legal obligations associated with the retirement of tangible long-lived assets and the associated capitalization of these amounts as part of the cost of the asset giving rise to the obligation.

2. An asset retirement obligation is a liability resulting from a legal obligation to retire or decommission a plant asset. The types of work activities typically include removing or dismantling the asset. For example, public utilities have a legal liability to decommission nuclear plants under certain Nuclear Regulatory Commission (NRC) regulations. The type of activities may include the dismantlement and removal of the reactor vessel and the related contaminated facilities.

3. After carefully considering the comments received, the Commission has determined that a Final Rule revising its accounting regulations, Annual Report Forms (FERC Form Nos.1, 1-F, 2, 2-A and 6), and rate filing requirements for asset retirement obligations should be issued.

4. The purpose of this Final Rule is to improve the usefulness and transparency of financial information provided to the Commission and other users of the FERC Forms by

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[4] Part 201 Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act. See 18 CFR Part 201 (2002).

[5] Part 352 Uniform System of Accounts Prescribed for Oil Pipeline Companies Subject to the Provisions of the Interstate Commerce Act. See 18 CFR Part 352 (2002).

establishing uniform accounting and reporting requirements for legal obligations associated with the retirement of tangible long-lived assets. The Commission is of the view that such requirements are needed because these types of transactions and events are not clearly or consistently reported. This rule is part of the Commission's ongoing effort to address emerging accounting developments within the context of the Uniform Systems of Accounts.

5. The accounting for asset retirement obligations in this rule is consistent with the accounting and reporting requirements that jurisdictional entities will use in their general purpose financial statements provided to shareholders and the Securities Exchange Commission (e.g., companies will separately account and report the liability for the asset retirement obligations, capitalize the asset retirement costs, charge earnings for depreciation of the asset and charge operating expense for the accretion of the liability).

6. The Commission is also revising its rate filing requirements to accommodate the above-mentioned changes. In that regard, the accounting for asset retirement obligations will not affect jurisdictional entities' ability to seek recovery of costs arising from asset retirement obligations in rates. However, if billings under formula rate tariffs are affected by the adoption of these accounting requirements, the jurisdictional entity must obtain approval from the Commission prior to implementing the change for tariff billing purposes.

7. Finally, the Commission is revising the following Annual Reports: FERC Form No. 1, Annual Report of Major Public Utilities, Licensees and Others (Form 1); FERC

Form No. 1-F, Annual Report of Nonmajor Public Utilities and Licensees (Form 1-F); FERC Form No. 2, Annual Report of Major Natural Gas Companies (Form 2); FERC Form No. 2-A, Annual Report of Nonmajor Natural Gas Companies (Form 2-A); and FERC Form No. 6, Annual Report of Oil Pipeline Companies (Form 6) to include the new accounts and the revised schedules.[6]

II. BACKGROUND

8. The recognition and measurement of legal liabilities associated with the retirement and decommissioning of long-lived assets by various entities, including Commission jurisdictional entities, have been inconsistent over the years. Some jurisdictional entities do not recognize asset retirement obligations in their accounts while other jurisdictional entities only recognize the amounts included in the rate setting process as a component of accumulated depreciation. The Commission, in an effort to eliminate the inconsistencies in accounting practices by jurisdictional entities for asset retirement obligations, issued its October 30, 2002 Notice of Proposed Rulemaking to revise the accounting regulations, FERC Annual Report Forms and rate filing requirements for asset retirement obligations.[7]

9. The scope of the NOPR covered certain legal obligations associated with the future retirement of long-lived assets. These obligations, generally referred to as asset

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[6]The FERC Annual Reports bear the following OMB approval control numbers: Form 1 has OMB approval number 1902-0021; Form 1-F has OMB approval number 1902-0029; Form 2 has OMB approval number 1902-0028; Form 2-A has OMB approval number 1902-0030; and Form 6 has OMB approval number 1902-0022.

[7]See supra note 1.

retirement obligations, are legal obligations associated with the retirement of a tangible long-lived asset that an entity is required to settle as a result of an existing enacted law, statute, ordinance, or written or oral contract or by legal construction of a contract under the doctrine of promissory estoppel.[8]

10. In the NOPR, the Commission broadly set forth the proposed accounting framework for asset retirement obligations as follows:

11. An entity essentially recognizes a liability for the fair value of an asset retirement obligation at the time the asset is constructed, acquired, or when a change in the law creates a legal obligation to perform the retirement activities. Upon initial recognition of that liability, an entity also increases the cost of the related asset that gives rise to the legal obligation by the same amount. The liability is increased over time until the actual retirement activity commences. Additionally, the asset retirement cost capitalized is depreciated over the same life of the related asset giving rise to the obligation. An entity is required to re-measure the liability due to the passage of time and certain other changes in the estimate of the liability.

12. Entities will be required to recognize the liabilities for asset retirement obligations and the related costs as if the new standard had been in effect for all prior periods. The difference between the amounts at the date of adoption and the amounts previously

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[8]See Financial Accounting Standards Statement (FAS) No. 143, Accounting for Asset Retirement Obligations, issued in June 2001. The accounting publication may be obtained from FASB at http://www.fasb.org/. Appendix A, paragraphs A2 through A5, contains a discussion of legal obligations.

recorded for these items are to be included in net income unless the criteria for recognition of regulatory assets or liabilities are met under Order No. 552.[9]

III. DISCUSSION

13. The Commission received 16 comments concerning various aspects of the proposed rule.[10] The majority of the commenters were generally supportive of the Commission's effort to provide interpretative guidance on the application of generally accepted accounting principles to jurisdictional entities that presently file financial information with the Commission in Annual Report Forms 1, 1-F, 2, 2-A, and 6.[11]

14. After careful consideration of the comments received, the Commission is adopting the changes and revisions as proposed with certain modifications and clarifications as discussed below.

A. Accounting for the Cumulative Effect Adjustment

15. Upon initial implementation of the new accounting requirements for asset retirement obligations the Commission proposed that jurisdictional entities establish in their accounts all of the amounts that would have been recorded therein had these new requirements always been in effect. The NOPR referred to the accounting entries

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[9]See Order No. 552, 58 FR 17982 (Apr. 7, 1993), FERC Stats. & Regs., Regulations Preambles January 1991-June 1996 ¶ 30,967 at pp. 30,823-26 (Mar. 31, 1993) for guidance on the recognition of regulatory assets and regulatory liabilities when certain conditions are met.

[10]See Appendix A for Listing of Commenters.

[11]See Arkansas PSC at p. 2, Deloitte & Touche at p. 1, FirstEnergy at p. 2, NASUCA at pp. 2-3, NRECA at pp. 3-4, Progress Energy at p. 1 and Southern at p. 1.

required to implement this part of the proposal as "transition adjustments." In certain instances, the transition adjustments could result in a charge or credit to net income. This charge or credit is referred to as the "cumulative effect adjustment" because it represents the cumulative difference between all amounts charged to net income for asset retirement obligations in past periods under the prior accounting method and what would have been charged to net income in those periods had these new accounting requirements set forth in the NOPR always been in effect. For rate regulated entities the cumulative effect adjustment amounts will be recognized as a regulatory asset or liability if the requirements of Commission Order No. 552 are met.[12]

16. The Commission proposed to record the cumulative effect adjustment in two separate amounts. The first portion of the cumulative effect adjustment assumes that all amounts included in the accumulated depreciation accounts for previously recognized legal retirement obligations will be considered depreciation of the asset retirement costs capitalized under the proposed rule. The difference between the amount included in the accumulated depreciation for previously recognized legal retirement obligations and the accumulated depreciation on the capitalized asset retirement costs recognized under the new accounting requirements will be charged or credited, as appropriate, to net income or recognized as a regulatory asset or liability if the requirements of Order No. 552 are met. The second portion of the cumulative effect adjustment assumes that all amounts related

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[12]See Order No. 552, supra note 9, for guidance on the recognition of regulatory assets and regulatory liabilities when certain conditions are met.

to the accretion of the liability for the asset retirement obligation under the new requirements would be charged to net income or recognized as a regulatory asset if the requirements of Order No. 552 are met.

Comments Received:

17. Two commenters assert that the NOPR was unclear as to the initial implementation details of the proposed accounting rules and seek clarification of this matter in the final rule.[13] The commenters request the Commission to clarify the components included in the cumulative effect adjustment. FirstEnergy asserts that the components of the cumulative effect adjustment may consist of the net of the cumulative accretion on the asset retirement obligation, the accumulated depreciation on the related capitalized asset retirement cost, and the reversal of any previously accrued legal retirement obligation.

18. FirstEnergy notes that the NOPR only addresses amounts included in accumulated depreciation for accruals of previously recognized legal retirement obligations of long-lived assets. The commenter submits that the Commission has permitted amounts related to legal liabilities associated with the retirement of assets to be recorded in a deferred credit or liability account rather than in accumulated depreciation. The commenter asserts further that accruals of previously recognized legal retirement obligations that were recorded in a deferred credit or in a liability account should be included in the computation of the cumulative effect adjustment in the final rule.

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[13] See FirstEnergy at p. 2 and Progress Energy at p. 2.

Commission Response:

19. The proposal to establish the cumulative effect adjustment was intended to simplify implementation of the accounting for asset retirement obligations. However, based on the comments received the Commission recognizes that the implementation proposal may have been confusing because the steps were somewhat different than the ones contained in FAS 143. However, the Commission notes that the cumulative effect determination under FAS 143 and this final rule will result in the use of the same components and produce the same cumulative effect adjustment amount.

20. The Commission finds that since both approaches produce the same cumulative effect adjustment for asset retirement obligations, jurisdictional entities may recognize the initial application of the new accounting rules for the cumulative effect adjustment as the difference between the amounts of previously accrued accumulated legal obligations associated with the retirement of the asset recognized in the balance sheet prior to adopting the new accounting requirements and the amount that will be recognized on the balance sheet under the new accounting requirements. The Commission also finds that in order to properly determine the proper cumulative effect adjustment, jurisdictional entities must include the amounts of previously accrued accumulated legal obligations associated with the retirement of assets recorded in other deferred credits accounts or other liability accounts in the computation of the cumulative effect adjustment.

B. Recognition of Regulatory Assets and Liabilities

21. The Commission proposed that public utilities, licensees and natural gas companies recognize regulatory assets and liabilities related to asset retirement obligations if the accounting requirements under Order No. 552 are met.[14]

Comments Received:

22. Several commenters request that the Commission clarify in the final rule the accounting for the recognition of regulatory assets and liabilities for the effects on financial operations related to the initial implementation and the period-to-period accounting for any difference between amounts charged to net income for expenses related to asset retirement obligations and the amounts recovered in rates for asset retirement obligation costs.[15] The commenters assert that the proposed accounting for the recognition of the debit cumulative effect adjustment in account 182.3, Other regulatory assets, as a regulatory asset is not consistent with the accounting for the recognition of the credit cumulative effect adjustment as a regulatory liability in account 254, Other regulatory liabilities.[16] The commenters suggest that inconsistency arises because the Commission required that a credit cumulative effect adjustment must be recorded as a regulatory liability in account 254, Other regulatory liabilities, while a debit cumulative

[14] See Order No. 552, supra note 9, for guidance on the recognition of regulatory assets and regulatory liabilities when certain conditions are met.

[15] See Deloitte & Touche at p. 1, EEI at pp. 3-4, Progress Energy at p. 2, and RUS at p. 3.

[16] See Deloitte & Touche at p. 1, EEI at pp. 3-4, Progress Energy at p. 2, and RUS at p. 3.

effect adjustment must be charged to net income in account 435, Extraordinary deductions, or recorded as a regulatory asset in account 182.3, Other regulatory assets, for part or all of the cumulative effect adjustment if the requirements of Order No. 552 are met. One commenter suggests that the Commission should provide for the recording of regulatory assets for debit cumulative effect adjustments as being probable of recovery as a general rule consistent with the Commission's proposed treatment of recording credit cumulative effect adjustments as regulatory liabilities.

23. Additionally, one commenter recommends that the Commission incorporate the accounting for the recognition of regulatory assets and liabilities for the initial adoption and the period-to-period accounting for asset retirement obligations in the requirements of the Uniform Systems of Accounts under Parts 101 and 201[17]

Commission Response:

24. The Commission declines to adopt the commenter's recommendation to amend the Uniform System of Accounts under Part 101 and Part 201 of the Commission regulations to include specific accounting instructions for the recognition of regulatory assets and liabilities for the initial adoption and the period-to-period accounting for asset retirement obligations. The accounting instruction for regulatory assets and liabilities as prescribed in the Uniform Systems of Accounts in Part 101 and Part 201 adequately addresses the requirements for regulatory assets or liabilities related to differences in the timing of

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[17] See EEI at p. 6.

recognition of asset retirement obligation expenses for financial accounting purposes and their recovery in rates.

25. The Commission established the accounting requirements for recording regulatory assets and liabilities as set forth in the Uniform Systems of Accounts in Part 101 and Part 201 pursuant to Commission Order No. 552.[18] Under these requirements regulatory assets and liabilities are defined as assets and liabilities that result from ratemaking actions of regulators.[19] Regulatory assets and liabilities generally arise from specific revenues, expenses, gains, or losses that would have been included in net income determinations in one period under the general requirements of the Uniform System of Accounts but for it being probable they will be included in a different period(s) for purposes of developing the rates the utility is authorized to charge for its utility services or in the case of regulatory liabilities, for refunds to customers, not provided for in other accounts, that will be required.[20] The term "probable," as used in Order No. 552 for the definition of regulatory assets or regulatory liabilities, refers to that which can be

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[18]See Order No. 552, supra note 9, for guidance on the recognition of regulatory assets and regulatory liabilities when certain conditions are met.

[19]See paragraph A of account 182.3, Other regulatory assets, and paragraph A of account 254, Other regulatory liabilities, in 18 CFR Part 101 (Public Utilities and Licensees), and paragraph A of account 182.3, Other regulatory assets, and paragraph A of account 254, Other regulatory liabilities, in 18 CFR Part 201 (Natural Gas Companies).

[20]See Definition 30 in 18 CFR Part 101 (Public Utilities and Licensees), and Definition 30 in 18 CFR Part 201 (Natural Gas Companies).

reasonably be expected or believed on the basis of available evidence or logic but is neither certain nor proved.[21]

26. Jurisdictional entities will initially recognize a cumulative effect adjustment and thereafter record the depreciation of the asset retirement costs in account 403.1, Depreciation expense for asset retirement costs, and the accretion of the liability for the asset retirement obligations in account 411.10, Accretion expense. The amounts for depreciation and accretion expense that will be recognized under the general requirements of the Uniform Systems of Accounts and the amount of asset retirement obligation costs included in cost of service for ratemaking purposes may be different. Recognition of such differences as regulatory assets and liabilities may be appropriate in some instances, but not in others. This determination however cannot be made in a generic accounting rulemaking proceeding. It must instead be made by each individual entity taking into consideration the jurisdictional entity's rate setting bodies, the specific agreements entered into between the jurisdictional entity and certain customers regarding the manner in which costs will be allocated among the parties or other relevant evidence. Therefore, if the requirements of Order No. 552 are met, a jurisdictional entity must recognize regulatory assets and liabilities for the cumulative effect adjustment and any differences between the recognition of asset retirement obligation expenses for financial accounting purposes and their recovery in rates.

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[21] See FERC Stats. & Regs., Regulations Preambles January 1991-June 1996 ¶ 30,967 at 30,826 (1993).

C. Authority to Adjust Accumulated Depreciation (Accounts 108 and 110)

27. The Commission proposed granting public utilities, licensees and natural gas companies the requisite authority to remove any excess amounts[22] from accounts 108 and 110 provided that the amounts were transferred to account 254, Other regulatory liabilities.[23]

Comments Received:

28. Certain commenters request that the Commission clarify the authority granted to jurisdictional entities to adjust the balances in accounts 108 and 110 for existing long-lived assets with legal retirement obligations.[24] However, one commenter requests that the Commission provide explicit authority to remove all of the previously accrued amounts for legal obligations to retire or dispose of the long-lived assets recorded in accounts 108 and 110. Another commenter requests the Commission allow transferring from accounts 108 and 110 to the new proposed account 230, Asset retirement obligations, any remaining amounts for previously accrued legal obligations to retire or dispose of the long-lived assets.

[22]This excess amount results when the amount of accumulated depreciation recognized for prior accrued legal retirement obligations is greater than the accumulated depreciation recognized on the capitalized asset retirement costs under the new requirements.

[23]See paragraph E to account 108, Accumulated provision for depreciation of electric utility plant (Major only), and paragraph E to account 110, Accumulated provision for depreciation and amortization of electric utility plant (Nonmajor only), in 18 CFR Part 101 (Public Utilities and Licensees).

[24]See EEI at pp. 2-3 and Progress Energy at p. 2.

29. Another commenter agrees with the Commission's pregranting authority to public utilities, licensees and natural gas companies for the removal of amounts from accumulated depreciation accounts associated with asset retirement obligations. However, the commenter asserts that the Commission should still require public utilities, licensees and natural gas companies to notify the Commission by submitting a description and journal entries related to such adjustments to the Commission for amounts transferred from accounts 108 and 110 to account 254, Other regulatory liabilities, related to any existing asset with a legal retirement obligation.[25]

Commission Response:

30. After considering the comments, the Commission will grant jurisdictional entities the authority to adjust accounts 108, 110 and 253 to properly recognize and record the liabilities for legal retirement obligations for existing assets, the asset retirement costs and related accumulated depreciation on the capitalized costs when the amounts that would otherwise be included in net income determinations meet the criteria for recognition as regulatory asset or liability.

31. The Commission notes that there may be instances where adjustments to accounts 108, 110 and 253 may be required as a result of this final rule but the criteria for the recognition of a regulatory asset or liability for the net income effect is not met. While we permit jurisdictional entities to make such adjustments our actions here should not be

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[25]See MoPSC at p. 6.

construed as approval.[26] Therefore, the Commission will require that jurisdictional entities to file with the Commission their journal entries along with supporting information to record any adjustment that affects net income within 60 days of the effective date of this final rule. The filing must include a description and explanation of the full particulars for including the amounts in net income.

32. The filing must also include a statement by the public utility, licensee or natural gas company of the facts and circumstances and the explicit determinations made by the jurisdictional entity demonstrating that the amounts credited to net income are not required to be refunded to customers or required to be recorded as a regulatory liability and must be credited to net income and not included in account 254, Other regulatory liabilities.

D. Accounting for Cost of Removal That Does Not Constitute a Legal Obligation

33. The Commission did not propose to change its accounting under Parts 101, 201 and 352 for the cost of removal for amounts that result from other than asset retirement obligations.

Comments Received:

34. Several commenters request that the Commission specify in the final rule that any cost of removal for non-legal retirement obligations remain in accumulated

[26] The income accounts used to record the cumulative effect adjustments are account 434, Extraordinary income, and account 435, Extraordinary deductions.

depreciation.[27] Certain other commenters suggest that the Commission should make certain modifications to the Uniforms Systems of Accounts under Part 101 and Part 201 to include the amount of cost of removal for non-legal obligations as regulatory liabilities in account 254, Other regulatory liabilities, instead of accumulated depreciation for public utilities, licensees and natural gas companies.[28]

35. One commenter recommends that the Commission exclude the cost of removal that does not qualify as a legal retirement obligation from the depreciation accrual and instead capitalize any removal costs related to the asset replaced as part of the costs of replacing the utility plant and if no replacement of the asset occurs, the cost of removal for non-legal retirement obligations should be expensed in the income statement.[29]

Commission Response:

36. As proposed in the NOPR, the rule applies to legal obligations associated with the retirement of tangible long-lived assets. Under the existing requirements of the Uniform Systems of Accounts removal costs that are not asset retirement obligations are included as a component of the depreciation expense and recorded in accumulated depreciation.[30] The Commission notes that certain jurisdictional entities may have been receiving

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[27]See EEI at p. 3 and Southern at p. 2.

[28]See Deloitte & Touche at p. 2 and NASUCA at pp. 2-3.

[29]See NASUCA at pp. 15-17.

[30]See Definition 10 in 18 CFR Part 101 (Public Utilities and Licensees), Definition 10 in 18 CFR Part 201 (Natural Gas Companies), and Definition 12 in 18 CFR Part 352 (Oil Pipeline Companies).

specific allowances for cost of removal for non-legal retirement obligations as a specific component in their rates approved by their regulators. The Commission did not propose any changes to its existing accounting requirements for cost of removal for non-legal retirement obligations. Accordingly, jurisdictional entities are accounting for such costs consistent with the requirements of the Uniform Systems of Accounts under Part 101 for public utilities and licensees, Part 201 for natural gas companies and Part 352 for oil pipeline companies.

37. The purpose of this rule is to establish uniform accounting requirements for the recognition of liabilities for legal obligations associated with the retirement of tangible long-lived assets. The accounting for removal costs that do not qualify as legal retirement obligations falls outside the scope of this rule. The Commission is aware that there is an ongoing discussion in the accounting community as to whether the cost of removal should be considered as a component of depreciation. However, this issue is beyond the scope of this rule and we are not convinced that there is a need to fundamentally change accounting concepts at this time.

38. Instead we will require jurisdictional entities to maintain separate subsidiary records for cost of removal for non-legal retirement obligations that are included as specific identifiable allowances recorded in accumulated depreciation in order to separately identify such information to facilitate external reporting and for regulatory analysis, and rate setting purposes. Therefore, the Commission is amending the instructions of accounts 108 and 110 in Parts 101, 201 and account 31, Accrued

depreciation – Carrier property, in Part 352 to require jurisdictional entities to maintain separate subsidiary records for the purpose of identifying the amount of specific allowances collected in rates for non-legal retirement obligations included in the depreciation accruals.

39. Jurisdictional entities must identify and quantify in separate subsidiary records the amounts, if any, of previous and current accrued accumulated removal costs for other than legal retirement obligations recorded as part of the depreciation accrual in accounts 108 and 110 for public utilities and licensees, account 108 for natural gas companies, and account 31 for oil pipeline companies. If jurisdictional entities do not have the required records to separately identify such prior accruals for specific identifiable allowances collected in rates for non-legal asset retirement obligations recorded in accumulated depreciation, the Commission will require that the jurisdictional entities separately identify and quantify prospectively the amount of current accruals for specific allowances collected in rates for non-legal retirement obligations.

E. Accounts Established for Recording Accretion of Asset Retirement Obligations and Depreciation of Asset Retirement Costs

40. The Commission proposed to add a new income statement account entitled account 411.10, Accretion expense, in the Uniform Systems of Accounts in Part 101 and Part 201 to record the accretion of the liability for the asset retirement obligation. The Commission also proposed to add a new income statement account entitled account 403.1,

Depreciation expense for asset retirement costs, in Part 101 and Part 201 to identify the depreciation expense recorded for capitalized asset retirement costs.

Comments Received:

41. Certain commenters recommend that the Commission's proposed new account 411.10, Accretion expense, should be renumbered as either account 411.11 or an account number within the range of account 405, Amortization of other electric plant, through account 407, Amortization of property losses, unrecovered plant and regulatory study costs, which relate to the amortization of utility plant.

42. Two commenters suggest that the Commission renumber its proposed new account 403.1 because it is already being used in the Rural Utilities Service's (RUS) Uniform System of Accounts.[31] The commenters suggest that the Commission use account 403.9 to accommodate the Uniform System of Accounts of RUS for its electric cooperatives.[32]

Commission Response:

43. The Commission will not renumber the chart of accounts. The accounting structure of the Uniform Systems of Accounts in Part 101 and Part 201 is designed to meet the accounting and reporting needs of this Commission. Users are permitted to adapt the Commission's Uniforms Systems of Accounts for their own needs by allowing

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[31] See RUS at p. 2 and NRECA at p. 6.

[32] See Rural Utilities Service of the United States Department of Agriculture (RUS) Uniform System of Accounts, 7 CFR Part 1767, Accounting Requirements for RUS Electric Borrowers.

them to create new accounts and subaccounts. Such company generated accounts however, must be reconciled if and when the Commission subsequently determines to use that account number for its regulatory purposes. Therefore, jurisdictional entities must reconcile their account numbers accordingly, to the account numbers established by this rule.[33]

F. Accounts for Recording Asset Retirement Costs

44. The Commission proposed to add new primary plant accounts within each plant function to record the asset retirement costs.

Comments Received:

45. Certain commenters object to the Commission's proposed new primary plant accounts within account 101 in Part 101 and Part 201[34] One commenter suggests the Commission create a new separate asset group called "Asset Retirement Costs" that separately identifies asset retirement costs in financial statements and would facilitate the exclusion of the asset retirement costs from the rate base in a rate change filing.

46. Another commenter suggests that capitalizing asset retirement costs in the new primary plant accounts could result in increasing personal property taxes for three of its utility operating companies that operate in one state. The commenter recommends that the asset retirement costs should be recorded as an intangible cost within account 101

[33] See General Instruction 3.C, Account Numbering System, in 18 CFR Part 101 (Public Utilities and Licensees) and 18 CFR Part 201 (Natural Gas Companies).

[34] See FirstEnergy at p. 1, MoPSC at pp. 4-5 and RUS at p. 2.

under Part 101 and Part 201 in primary plant account 303, Miscellaneous intangible plant. As an alternative, the commenter also recommends that the Commission include the word "intangible" in the account instructions of the new asset retirement cost primary plant accounts proposed by the Commission.

47. One commenter suggests that the Commission's proposed new primary plant accounts entitled account 359.1, Asset retirement costs for transmission plant, and account 399.1, Asset retirement costs for general plant, should be renumbered to avoid leading users to expect these are subaccounts of account 359, Roads and trails, under the transmission plant function and 399, Other intangible plant, under the general plant function in Part 101.[35] The commenter suggests that the Commission use account 351 which is currently a reserved account in the list of accounts for the transmission plant function. The commenter also suggests that the Commission use account 388 which is currently not an account used in the list of accounts for the general plant function.

Commission Response:

48. The Commission finds that these recommendations are not consistent with the view that asset retirement costs are considered an integral part of the costs of the particular asset that gives rise to the asset retirement obligations, rather than separate and distinct assets.

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[35] See RUS at p. 2.

49. The Commission notes that commenters' suggestions will not result in properly classifying asset retirement costs within the utility plant function associated with the actual plant assets that give rise to the legal retirement obligations. This result would be at odds with one of the objectives of the final rule, which is to provide proper accounting for legal obligations associated with the retirement costs.

G. Accounting for Gains and Losses for the Settlement of Asset Retirement Obligations Related to Electric and Gas Utility Plant

50. The Commission proposed to record gains or losses resulting from the settlement of asset retirement obligations for electric and gas utility plant in account 411.6, Gains from disposition of utility plant, and the account 411.7, Losses from disposition of utility plant, respectively.

Comments Received:

51. Many of the commenters did not object the Commission's proposed treatment for gains and losses resulting from the settlement of asset retirement obligations for electric and gas utility plant.[36] Two commenters believe that the Commission's proposed treatment is inappropriate in the situation in which a jurisdictional entity has recorded, at the date of adoption of the final rule, a regulatory asset or liability for the full difference (including third party risk factor) between the asset retirement obligation determined for accounting purposes and the asset retirement obligation allowed for ratemaking

[36] See EEI at p. 6 and Southern at p. 2.

86 FERC ¶ 63,014

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Southern California Edison Company) Docket Nos. ER97-2355-000, ER98-1261-000, and ER98-1685-000

PRESIDING ADMINISTRATIVE LAW JUDGE'S INITIAL DECISION

(Issued March 31, 1999)

APPEARANCES

Gary A. Morgans, Bruce J. Barnard, Michael D. Mackness, Jennifer Key, and Edward Tommey on behalf of Southern California Edison Company;

Bonnie S. Blair on behalf of Cities of Anaheim, Azusa, Banning, Colten and Riverside, California;

Alan I. Robbins, Elisa J. Grammar, and Mark D. Urban on behalf of California Department of Water Resources;

Arnold Fieldman, Channing D. Strother, and David B. Brearley on behalf of the City of Vernon;

Harvey Y. Morris and Peter Arth, Jr. on behalf of the Public Utilities Commission of the State of California;

Edward Berlin, David Ruben, and Michael Ward on behalf of California Independent System Operator Corporation;

Lisa G. Dowden and Sarah Weinberg on behalf of Northern California Power Agency;

Mark D. Parizio on behalf of Pacific Gas and Electric Company;

Michael Yuffee and Joel Newton on behalf of Sacramento Municipal Utility District;

James D. Pembroke, Wallace L. Duncan, Michael Postar, Lisa Gast, and Diana Mahmud on behalf of Transmission Agency of Northern California, The Metropolitan Water District of Southern California, Modesto Irrigation District, City of Santa Clara, California, City of Redding, California, M-S-R Public Power Agency, Trinity County Public Utility District;

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and refunds in the manner described therein, should be used for retail transmission refunds to avoid any inconsistency with its CTC rate design, while providing this Commission the opportunity to review the way refunds are made.

CPUC and Staff make a good case for adopting the CPUC recommendation in lieu of SCE's proposal. Indeed, it assures the Commission will defer to California and the CPUC with respect to the design of the CTC, but yet it provides for this Commission's review. Moreover, adopting an approach similar to that proposed in the SDG&E settlement, as pointed out by Staff, has the advantage of providing some consistency among the three California utilities. Accordingly, CPUC's proposal for disposition of refunds to retail customers is adopted.

6. Allocation of Administrative and General Expense and General and Intangible Plant to ISO Transmission

There are two issues relating to the allocation of administrative and general (A&G) and general and intangible plant (G&I) expenses. The first issue relates to the appropriate method to allocate A&G and G&I expenses among the various SCE business segments. Staff asserts that it followed longstanding Commission precedent using labor ratios to allocate certain A&G and G&I expenses among the business segments. Ex. S-9, at pp. 7-10. SCE advocates the use of a method that groups A&G and G&I costs into three attribution pools: direct, joint or common. Ex. SCE-10, at p. 2. SCE believes this approach allows it to directly assign many costs that would otherwise be considered general. Ex. SCE-34, at p. 34. The second issue involves the proper classification of certain costs as A&G expenses. California disputes the assignment of some specific common costs to the transmission function. SCE disagrees that the items can be recovered through distribution rates, Public Purpose Program funding, or through generation revenues. The allocation issue will be addressed first.

A. Allocation Issue

SCE assigns its A&G and G&I costs to generation, ISO transmission and Non-ISO business segments by first grouping these costs into one of three cost attribution pools: direct, joint or common. Each pool of costs is then assigned to the appropriate business segment based on the attribution technique specific to that pool. Ex. SCE-10, at pp. 2-3. SCE analyzes each cost account, placing costs that are specific to a single business segment in the direct pool. If the costs are associated with multiple segments, the costs are placed in the joint cost pool, but if SCE cannot associate a cost with one segment or set of segments, the cost is placed in the common pool. Id., at p. 3. SCE uses information available from its Corporate Accounting and Records System (CARS) to analyze each accounting

record to determine which costs belong in which pool, representing that this identification system enables it to directly assign many costs that would otherwise be considered general. Id., at pp. 3-6.

One of SCE's goals is to maximize the assignment of costs and to minimize the use of generic allocation formulas. The detail involved in its analysis limits the amounts to which general allocation formulas are applied. Id., at p. 8. The costs that are in the joint pool are assigned to a business segment according to cost causative variables. An example of a cost causative variable is relative building occupancy, which is used to assign janitorial services. Ex. SCE-10, at p. 8. The costs that end up in the common pool are assigned to segments using a multi-factor assignment formula based on three equally weighted variables: operation and maintenance (O&M) expenses, labor costs, and capital expenditures. This multi-factor allocator allows the attribution of costs based on the relative activity of each segment within the company. Id., at pp. 8-10.

While recognizing that the Commission has preferred the use of labor ratios to assign A&G and G&I costs, SCE believes that its detailed cost and activity analysis affords the opportunity to directly and indirectly assign many of the costs that were previously considered "general". SCE states that its item-by-item review and assignment, when compared to a global allocator such as the labor allocator, demonstrates the amount by which the global labor allocator is incorrect. It maintains that if the difference is significant, then the less accurate global labor allocator, is unreasonable. Ex. SCE-34, at p. 8. In this case, SCE contends that the difference is in excess of $20 million, about 10 percent of the requested revenue requirement, and therefore a significant amount.

SCE asserts that the method it proposes here is consistent with the method it uses before the CPUC and adopting that method here would avoid a whipsaw impact resulting from inconsistent application of different allocation methodologies. Moreover, SCE maintains that unbundling heightens the importance of accurate functionalization. As set out above and further explained in its evidence and briefs, SCE states that it has shown that the labor method allocator results in unjust and unreasonable rates and its methodology is clearly a reasonable methodology to use to allocate A&G and G&I expenses.

Staff takes issue with the approach advocated by SCE. It states that the labor ratio approach used by the Commission for many years to allocate both A&G and G&I expenses is the most appropriate method. Regarding the allocation of G&I costs, Staff relies on Minnesota Power and Light Co., 4 FERC ¶ 61,116, at 61,268 (1978), where the Commission held that G&I costs should be

allocated on the basis of labor cost ratios. On rehearing the Commission said, " . . . a utility may use some basis for functionalization other than labor ratios only if it can show that labor ratios are unreasonable in its situation [not merely that its proposed alternative method is reasonable]." Minnesota Power, 4 FERC at 61,150-51. The precedent for using labor ratios for the allocation of A&G expenses is equally longstanding and stems from the same case.

Staff contends that to use a method other than labor ratios, SCE would have to show that its method is verifiable, easily applied and an objective measure. Tr. 997. An objective measure is one that can be fairly applied by different utilities. Tr. 1040. As explained below, Staff states that SCE's method is complex, lacks verifiability and is difficult to apply. Staff concludes that there is no good reason to adopt SCE's CARS approach and that SCE should continue the use of labor ratio allocators for both G&I and A&G expenses.

Staff's position is persuasive. Even though the Minnesota Power precedent is over 20 years old, the Commission in 1998 recently reaffirmed the use of labor ratios to functionalize G&I costs. Portland General Electric Co., 84 FERC ¶ 61,216, at 62,004 (1998); see also Montana Power Co., 83 FERC ¶ 61,211, at 61,935 (1998). These cases indicate that the arguments that the "old" precedents are too old, or are no longer relevant, are not convincing. As expected, the allocation methods of the parties lead to different results, however, this fact alone does not make one method unjust and unreasonable and the other method just and reasonable. As Staff correctly argues this only establishes that different results are reached, not that one method is necessarily superior to the other. The labor approach proposed by the Staff is the allocation method applied for years by the Commission. SCE, therefore, has the burden of showing that Staff's approach is unjust and unreasonable and that it's approach is just and reasonable.

SCE has clearly not shown that its method provides a more accurate result. As demonstrated by Staff and CPUC, SCE's detailed analysis of costs is lacking. The records produced lacked function codes (information on the activity performed) or location codes (geographic information). While SCE made certain judgments in formulating these assignments, there is no evidence of how these assignments were made or why certain assignments were made. Direct assignments of A&G expenses were made without including any information as to the reasons for such assignments. Tr. 1000-01. Only two percent of the A&G expenses were allocated to the direct pool, Ex. S-38, indicating that there is insufficient data to make direct assignments. As discussed below with regard to the classification issue, CPUC while supporting SCE's methodology, mounts a major challenge to SCE's classification of certain A&G items.

SCE's proposal does not sufficiently establish that its method is more reliable than the allocation of costs by labor ratios. SCE has failed to demonstrate that the California restructuring situation has changed the nature of G&I or A&G costs and any allocation of such costs. The goal remains to assign the proper amount of costs to each function, i.e., transmission services. The timing of rate cases before this Commission, and also before the CPUC, has at times caused an amount of uncertainty regarding the assignment of G&I and A&G costs for recovery in regulated rates. But that fact alone does not provide a valid reason to now abandon the labor ratio method long endorsed by this Commission for many years. Thus, it is found that SCE has not demonstrated that the labor ratio method is unjust and unreasonable and that its proposed methodology is just and reasonable. For the reasons discussed above, SCE will be required to submit a compliance filing showing the calculations for the proper G&I and A&G costs for the regulated rates based on the labor ratio method advocated by Staff.

B. Classification Issue

The classification issue is relevant only if SCE were to prevail with regard to its proposed methodology on the allocation issue. Since it is concluded that SCE has not demonstrated that the labor ratio allocation method is unjust and unreasonable, nor that its allocation method is just and reasonable, the classification issue is rendered moot. It may nevertheless be useful to address the classification positions of the parties should the Commission prefer SCE's proposal to replace the labor ratio allocator method with its item-by-item methodology.

CPUC does not generally contest SCE's allocation methodology but it does contest the inclusion in the ISO and the transmission revenue requirement of a number of A&G cost items that do not relate to transmission service. It alleges that the costs relate to other functions such as Public Purpose Programs, generation, or distribution. CPUC makes a convincing showing that removing these A&G expenses from SCE's TO revenue requirement is appropriate and will keep SCE from double-collecting the same costs.

SCE has agreed to remove from the transmission revenue requirement two of the items that CPUC challenged. The two items total $6,215,940, of the $6,811,745, amount that CPUC originally took issue with. Other concessions by both SCE and CPUC have brought the amount that CPUC still contends is misallocated A&G expenses to $585,384.

CPUC continues to object to close to 50 A&G expense items, maintaining that these expense items are not transmission function costs, nor do they belong in the common pool of costs, since they specifically relate to other functions. SCE responds

Company:	Southern California Gas Company (U 904 G)/ San Diego Gas & Electric Company (U 902 M)
Proceeding:	2024 General Rate Case
Application:	A.22-05-015/-A.22-05-016 (cons.)
Exhibit:	SCG-30-R/SDG&E-34-R

REVISED

PREPARED DIRECT TESTIMONY OF

ANGEL N. LE AND PAUL D. MALIN

(SHARED SERVICES BILLING, SHARED ASSETS BILLING, SEGMENTATION, & CAPITAL REASSIGNMENTS)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

August 2022

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2

TABLE AL/PM-12
SoCalGas Summary of Reassignments % to Capital

Category	Reassignment %
A&G Costs	13.3%
Labor Overheads	
**Variable Pay	37.2%
**Public Liability & Property Damage	24.3%
**Workers' Compensation	26.3%
**Employee Benefits	26.3%
**Employee Pension & PBOP	26.3%
Warehousing	80.2%
Purchasing	57.5%
Fleet	21.3%
Shops	12.1%
Exempt Material	77.3%
Small Tools	12.0%

3 The summary of Capital Reassignment Rates is shown in Appendix E (SDG&E) and
4 Appendix F (SoCalGas).

5 **C. Discussion of Reassignment Percentage Derivation**

6 **1. A&G Costs**

7 A percentage of A&G direct costs in FERC accounts 920 (in part) – A&G Salaries, and
8 921 – Office Supplies & Expenses and shared service Sempra affiliate costs in FERC account
9 923 (in part) – Outside Services Employed are reassigned to construction each year in
10 accordance with the Electric Plant Instructions and Gas Plant Instructions of the Code of Federal
11 Regulations. SoCalGas and SDG&E derive the A&G reassignment rate by utilizing the 2021
12 actual A&G costs assigned to capital. To use this method, the applicable A&G costs are mapped
13 from cost centers to FERC accounts 920, 921, and 923. Utilizing the subset of A&G FERC
14 accounts, the capital reassignment rate of 8.5% (SDG&E) and 13.3% (SoCalGas) was calculated
15 by taking the 2021 actual A&G costs assigned to capital projects and dividing it by 2021 total
16 A&G costs of the same FERC accounts.[25]

17 The use of actual costs reassigned to capital to derive the reassignment rate to capital
18 provides consistency with other Clearing Account categories (i.e., Warehousing, Purchasing,

[25] *See* Ex. SCG-30-WP/SDG&E-34-WP, WP-47 (SDG&E) and WP-58 (SoCalGas).

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: 15 U.S.C. 717–717w, 3301–3432; 42 U.S.C. 7101–7352, 7651–7651o.

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

EDITORIAL NOTE: For FEDERAL REGISTER citations affecting part 201, see the List of CFR Sections Affected, which appears in the Finding Aids section of the printed volume and on GPO Access.

EFFECTIVE DATE NOTE: At 58 FR 18006, April 7, 1993, part 201 was amended by redesignating definitions 31 through 39 as 32 through 40 and adding a new definition 31; Accounts 182.3 and 254 were added under Balance Sheet Accounts; and Accounts 407.3 and 407.4 were added under Income Accounts. The added text contains information collection and recordkeeping requirements and will not become effective until approval has been given by the Office of Management and Budget.

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

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

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

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

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

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

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

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

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

10. *Payroll distribution.* Underlying accounting data shall be maintained so that the distribution of the cost of labor charged direct to the various accounts will be readily available. Such underlying data shall permit a reasonably accurate distribution to be made of the cost of labor charged initially to clearing accounts so that the total labor cost may be classified among construction, cost of removal, gas operating functions (manufactured gas production, natural gas production and gathering, products extraction, underground storage, transmission, distribution, etc.), and nonutility operations.

11. *Accounting to be on accrual basis.* A. The utility is required to keep its accounts on the accrual basis. This requires the inclusion in its accounts of all known transactions of appreciable amount which affect the accounts. If bills covering such transactions have not been received or rendered, the

the hedged item enters into the determination of net income. Amounts recorded in other comprehensive income shall be reclassified into earnings in the same period or periods that the hedged forecasted item enters into the determination of net income.

24. *Accounting for asset retirement obligations.*

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

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

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

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

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

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

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

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

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

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

E. Separate subsidiary records shall be maintained for each asset retirement obligation showing the initial liability and associated asset retirement cost, any incremental amounts of the liability incurred in subsequent reporting periods for additional layers of the original liability and related asset retirement cost, the accretion of the liability, the subsequent measurement changes to the asset retirement obligation, the depreciation and amortization of the asset retirement costs and related accumulated depreciation, and

the settlement date and actual amount paid to settle the obligation. For purposes of analyses a utility shall maintain supporting documentation so as to be able to furnish accurately and expeditiously with respect to each asset retirement obligation the full details of the identity and nature of the legal obligation, the year incurred, the identity of the plant giving rise to the obligation, the full particulars relating to each component and supporting computations related to the measurement of the asset retirement obligation.

Gas Plant Instructions

1. *Classification of gas plant at the effective date of the system of accounts.*

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

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

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

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

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

B. When the consideration given for property is other than cash, the value of such consideration shall be determined on a cash basis. (See, however, definition 8.) In the entry recording such transaction, the actual consideration shall be described with sufficient particularity to identify it. The utility shall be prepared to furnish the Commission the particulars of its determination of the cash value of the consideration if other than cash.

C. When property is purchased under a plan involving deferred payments, no charge shall be made to the gas plant accounts for interest, insurance, or