CALIFORNIA PUBLIC UTILITIES COMMISSION

Water Division

STANDARD PRACTICE FOR PREPARATION OF CHAPTERS ON UTILITY PLANT, DEPRECIATION AND RATE BASE FOR REPORTS ON MAJOR UTILITY OPERATIONS

Standard Practice U-5

For Orientation and Development Conferences
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MEMORANDUM

This standard practice replaces the issue of July 1, 1952, and augments the scope of the previous standard practice by the addition of a chapter on Depreciation. This revision sets forth methods of developing and presenting test year results for utility plant, deductions for depreciation and rate bases in results of operation reports. The text herein supplements the subject material outlined in Standard Practice U-3.

CHAPTER 1 - INTRODUCTION

A - PURPOSE OF STANDARD PRACTICE

1. This standard practice outlines standard procedures for the preparation of chapters on utility plant, depreciation expense and reserve, and rate base for inclusion in results of operation reports of major gas, electric, telephone and water utilities.

B - GENERAL COMMENTS

2. The amount of appropriate recorded and historical material to be included in the chapters covered by this standard practice will be governed by the extent to which such material has been furnished in the applicant's exhibits or in the other chapters of the staff's reports. No duplication should be made other than for purposes of reconciliation. Reference to data in the applicant's exhibits can be made when no exception is made to such material and only the necessary amplifying data should be included in the staff's chapters so that the Commission will be fully informed.

CHAPTER 2 - UTILITY PLANT

3. The preparation of the chapter on utility plant is discussed under the following sections:

A - General
B - Utility Plant for Test Periods
C - Adjustments in Test Periods
D - Analysis of Construction Budget

A - GENERAL

4. The utility plant to be considered for inclusion in this chapter for the test year periods is primarily:

a. Utility Plant in Service
b. Construction Work in Progress

In some instances utility plant held for future use may be included with appropriate modification in rate base in order to conform to the criteria established by Decision No. 50258 in Application No. 33935 of The Pacific Telephone and Telegraph Company (53 CPUC 257, 297).

5. Balances of utility plant in service and in other utility plant accounts (e.g., see page 22 of FPC Uniform System of Accounts for natural gas companies), together with the balance of construction work in progress (CWIP), represent the total recorded cost of plant constructed and acquired and comprise the total utility plant.

6. Construction work in progress, with respect to the timing of its inclusion in the amount of total utility plant for rate base purposes, is considered in two categories, namely:

(a) Construction work in progress upon which interest during construction is being included, and
(b) Construction work in progress to which no interest is added.

Interest-bearing CWIP (a) above is not included in utility plant for rate base purposes until such time as interest accumulations have ceased, since its prior inclusion would result in duplication of return on the same investment. Non-interest bearing CWIP -

also called operative CWIP - is included as expended in utility plant for rate base purposes.

7. Plant dollars to be included in the utility plant chapter should be only those amounts which are used and useful in the performance of service and directly applicable to the district or department under study.

8. If a utility is engaged in more than one utility service or in one utility service segregated between two or more districts, certain of its plant may be used in common by the several services or districts and is generally termed common utility plant. Such plant should be included only in a general report dealing with the over-all utility operations and any allocation to the department or district under study should be included in summary in the rate base chapter.

9. Results of operation reports are prepared under a unit team operation as a function in the Utility Division's participation in rate proceedings of major utilities. The unit team normally will consist of members assigned from the operating branch involved and from the General Engineering Branch. In several instances, there is a need for coordination with the operating branch for the development of some of the chapters comprising the report.

10. Designations of properties which are not used and useful, of the anticipated growths in customers, demand and load of budgeted plant construction deemed as operational improvements and of additional plant additions recommended for service improvements are some of the items which are primarily the function of the operating branch members and which affect the plant, depreciation and rate base chapters. Conversely, any full period weighting of plant for operational and service improvements and any adjustments to the budgeted amounts for the replacement programs may affect the maintenance expenses and operation expenses being considered by the operating branch. Further, plant amounts may possibly be developed, as the work proceeds, in a manner appropriate for use later, if needed in a cost allocation study by the operating branch.

Work Order Classifications

11. It is common practice for larger utilities to accumulate costs of construction under blanket work orders and individual work orders. Blanket work orders are usually used for expenditures for installations, replacements and removals of

services and meters, small new business line construction and new business main installations, small routine distribution line and main replacements, and routine general work. The individual work orders usually cover plant additions and retirements in specific jobs at definite locations.

B - UTILITY PLANT FOR TEST PERIODS

Utility Plant for Basic Test Period

12. Utility plant to be included in the basic test period consists of the first of year or period balances of utility plant in service, of any other appropriate utility plant and of operative construction work in progress plus the actual and estimated net additions thereto for the 12 months that ensue. If the basic test period is the year following the current year, the first of year balances for that test period will of course be estimated.

13. The net additions to plant during a basic test period will include:

a. Net charges reflected in the recorded monthly balances of utility plant in service and other appropriate plant accounts.

b. Net charges for plant reflected in the recorded monthly balances of operative construction work in progress account.

c. Estimated expenditures to be made for the remainder of the period. These are derived from the current year's construction budget and from any carry-over of authorizations for expenditures from the previous year's budget and on each of which no interest during construction will be added.

d. Estimated accumulated expenditures on interest-bearing CWIP subsequent to the cessation of interest during construction.

e. Estimated retirements to be made during the period subsequent to the last month of recorded entries in the plant accounts.

14. Utility plant for use in the rate base should be prepared also on a weighted average basis. By the use of weighted average plant each item thereof is reflected, as correctly as possible, in its proper relation to the period's operations. When the premise is used that the additions and retirements during any month are centered around the middle of the month, the weighted average plant for the period is derived by obtaining the arithmetical average of the sum of the average actual and estimated month-end balances of utility plant during the period. The weighted average net additions are the difference between the weighted average plant for the period and

the plant at the beginning of the period. This method can be simplified by obtaining the sum of the 13 end-of-month balances constituting the plant from the first of the period to the end, subtracting the sum of one half of the balances of the first and of the last month and dividing the remainder by 12 to obtain the weighted average balance.

15. Identical weighted average net additions can be obtained by summarizing each month's additions and retirements weighted in the proportion that the time from the middle of the month to the period's end bears to the full period. For example, amounts for March in a calendar year period would be multiplied by nine and one-half twelfths.

16. In developing weighted average net additions for the period, large additions that reflect accumulations of interest during construction should be weighted separately and then only for the balance of the period subsequent to the cessation of interest during construction. The amounts of such plant, after cessation of interest in any month, should not be included in the plant balance at the end of that month for use in developing weighted average balances. Inclusion in such balance automatically centers the addition in the middle of that month and, in a situation involving large project dollars, it can have a serious impact on the rate base.

Utility Plant for Preceding Test Period

17. It is usually desirable, as denoted in Section J - Test Periods, of Standard Practice U-2, that the results of the operations during the 12 months preceding the basic test period, suitably adjusted, be included in the report. In the event that only a portion of this 12-month period operation is actual, the balance of the operations must be estimated in order to obtain the estimated utility plant at the beginning of the basic test period. The procedures for making these estimates are similar to those to be used in the basic test period.

Construction Programs in Test Periods

18. The utility's construction programs, to the extent of acceptance by the staff for inclusion in utility plant, should be briefly discussed, together with a tabulation outlining the major construction dollars by groupings of plant and possibly the weighting accorded each in the utility plant for the period. Additions of a non-recurring or abnormal nature and includible for the full year, as discussed in Section C, should be weighted accordingly.

Summaries of Plant in Test Periods

19. A tabulation summarizing the amounts of utility plant at the beginning of each test period and the net additions and weighted average net additions during each period appears desirable for completion of the text of this chapter. The totals would be used in the rate bases and subject to the modifications usually made in the rate base chapter. A suggested format for this summary is shown in the following tabulation.

Year	Item	Plant in Service	Operative CWIP	Total Utility Plant
		(Thousands of Dollars)		
	Beginning of Year-Recorded (Prior Test Period)	$ 140,300	$ 3,500	$ 143,800
	Net Additions During Year			
	First Months-Recorded	7,000	6,000	13,000
	Last Months-Estimated	-	-	2,600
	End of Year-Estimate	-	-	159,400
	Wtd.Avg.Net Additions			
	First Months-Recorded	4,500	2,000	6,500
	Last Months-Estimated	-	-	300
	Total Estimated	-	-	6,800
	Beginning of Year Estimated (Basic Test Period)	-	-	159,490
	Net Additions During Year-Est.	-	-	35,000
	End of Year-Estimated			194,490
	Wtd.Avg.Net Additions During Year-Est.			21,000

20. Column headings for other plant in this summary can be added as required. The recorded balances, if reflecting any adjustments by Finance and Accounts Division, should be so denoted. The amounts of utility plant for the prior test period can be on an estimated basis as shown or on a fully recorded basis. In either case, however, it is suggested that no adjustment for trending be included in these amounts, but that a separate amount be developed therefor, as discussed in Section C following and included as an item in the rate base for the prior basic period.

21. A further summarization of the data in the above tabulation, together with comparisons of the amounts in the basic test period with those developed by the utility, should be introduced near the beginning of the chapter. The following example, assuming year 1965 as the basic test period, is suggested.

	Staff		Utility		
	1964	1965	1965	Utility Exceeds Staff	
Item	Estimated	Estimated	Estimated	Amount	Percent
	(Thousands of Dollars)				
Beginning of Year					
Utility Plant in Serv.	$140,300	-			
Operative CWIP	3,500	-			
Total Utility Plant	143,800	159,400	161,000	1,600	1.0
Net Additions	15,600	35.000	36,000	1,000	3.0
End of Year-Utility Plant	159,400	194,400	197,000	2,600	1.3
Wtd. Avg. Net Additions	6,800	21,000	21,500	500	2.4
Total Wtd. Avg. Utility Plant	150,600	180,400	182,500	2,100	1.2

Depreciable Plant

22. In the development of depreciable plant for use as a base in computing depreciation expense in the test periods subsequent to the last month of recorded plant, consideration should be given to a possible retention of an appropriate portion of the depreciable net additions in the balance of operative construction work in progress during each of the succeeding months. However, if it is the utility's practice to clear the CWIP by transfer to the plant accounts only periodically during the year, it appears appropriate for the staff to reflect, in the depreciable base, the estimated depreciable net additions only at those transfer times.

C - ADJUSTMENTS IN TEST PERIODS

23. Adjustments to utility plant in the test periods that should be reflected in the utility plant chapter are primarily:

(a) Adjustments to recorded plant by Finance and Accounts Division.
(b) Construction budget changes by staff.
(c) Adjustments for abnormal additions and for trend.

24. Any other appropriate adjustments to utility plant, not specifically covered under (a) above, including those for unrecorded charges and retirements, improper allocations between plant and expense, overbuilt facilities and non-operative properties are more properly includible in the rate base chapter.

Adjustments by Finance and Accounts Division

25. If the balance sheet chapter prepared by the Finance and Accounts Division develops adjustments to recorded utility plant, such adjustments to the extent deemed appropriate and the resulting adjusted utility plant should be used in the utility plant chapter and reference made to the source.

Construction Budget Changes

26. The estimated net additions to utility plant will reflect the views of the staff. To the extent possible, it will be appropriate to indicate the adjustments that were made to the utility's construction budget and the bases therefor. In Section D, Analysis of Construction Budget, some of the bases for adjustments are discussed.

Adjustments for Abnormal Additions and for Trend

27. Adjustments for abnormal additions and for trend can be denoted as regulatory adjustments to utility plant in order to indicate the level of earnings which may be expected in the immediate future, based on average current conditions and presently known factors. The regulatory adjustments to utility plant in the test periods are for the purposes (1) of adjusting the basic test period's plant to reflect average or normal year conditions on a current basis and (2) of adjusting the utility plant for the prior test period to reflect normal growth between the periods, for use in determining the trend in earning level.

28. The basic test period's plant should be adjusted so that it reflects for the full period certain changes in plant of a non-recurring nature which have already been made in this period or are imminent. Such change would be large additions or

retirements of items of plant not expected to occur with each year's growth and possibly not for several years. Examples of plant changes of this kind include additions of an office building, facilities primarily to provide for improvements of service rather than additional revenue producing plant, facilities providing for a change in operation such as telephone dial conversion or a large conversion from flat rate service to metered service, electric generating plants and retirements of plant in connection therewith. If the costs of the plant additions such as these were not included for their full amount in the plant used for the basic test period, a full rate of return on these costs would not be included in the rates authorized.

30. Care should be taken in making adjustments in the basic test period, as mentioned in the previous paragraph, to reflect some of the additions of the basic test period for the full period. A review of the utility's plant expenditures in the past may show that the monies budgeted for construction in one year have been spread fairly uniformly over all kinds of plant while in another year a comparable sized budget has been concentrated on certain types of plant. Concentration of a large amount of the budget on one item, even though it is non-revenue producing, does not necessarily mean that the cost of that item should be "rolled back" to the first of the basic test year. It is important to consider how much the utility has been spending annually for construction per customer and per other units and its past programming of construction for additional major items and for replacements.

31. Previously in this section it was indicated that, for use in determining the trend in earning level, the plant for the prior test period should be adjusted to the same basis as that of the basic test period, except for normal growth. Public utility rates are fixed prospectively. The plant of the prior test period should be so adjusted that the resultant change between it and the adjusted plant of the basic test period can be considered as average or normal growth and reasonably indicative of the annual changes in plant in the near future. In the absence of any known changes in the foreseeable future in the operations of the properties, the trend of the plant growth in the past few years can be one criterion for the estimate of the annual plant changes in the near future.

32. The extent to which the amount of the weighted average additions during the basic test period exceeds the normal or average annual past increases, or

estimated future annual increases, can be a measure of the adjustment to be made to the weighted average plant of the prior test period. This excess over normal may be determined by an analysis of specific additions by major classes of property for each of the past several years.

33. Another approach to the adjustment for the prior test period would be the consideration of the annual increases in the weighted average plant per weighted average customer. In this instance the weighted average plant per estimated weighted average customer in the basic test period could be reduced by this annual increase for application to the number of customers in the prior test period. Similarly, balances of plant costs per unit for each of several years and the unit costs of the yearly additions may be compared for various classes of plant, such as electric distribution line plant per unit of line and gas distribution line plant per unit of main.

34. Any firm changes in plant contemplated beyond the basic test period, which will have significant effect on the growth trend, should be given consideration in adjusting the prior test period relative to growth. Such changes could be the periodic need for increased power output capacity, storage facilities, transmission facilities or exchange facilities.

35. In summary, the bases for the adjustments to plant additions should be discussed briefly in the chapter's text. The adjustments for non-recurring or abnormal basic test period additions can be reflected in the weightings given these additions which are subsequently transferred to the rate base given these additions which are subsequently transferred to the rate base or transferred separately as an adjustment item. Incidentally, any retirements associated with these non-recurring or abnormal additions should be similarly weighted. The results of any adjustments to the prior test period's plant for trend in earning level should be separately maintained and transferred as an adjustment to the rate base of the prior test period.

36. An example of an adjustment to the plant of the prior test period in order to show normal growth between it and the basic test period follows. Such an adjustment would reflect the "roll back" to the first of the prior test period and consequent elimination from the trend between the two periods of any non-recurring additions in the basic test period included therein 100%.

	Prior Test Period	Basic Test Period	Increases
	(Thousands of Dollars)		
Utility Plant-Fist of Period	$143,800	$159,400	-
Wtd. Avg. Net Additions During Period	6,800	21,000*	-
Wtd. Avg. Utility Plant	150,600	180,400	29,800
Normal Growth Between Test Periods of Wtd. Avg. Utility Plant			14,000
Increase to Wtd. Avg. Utility Plant of Prior Test Year to Reflect Normal Growth Trend			15,800

* Reflects 100% weighting of any non-recurring net additions.

D - ANALYSIS OF CONSTRUCTION BUDGET

37. A construction budget for a current year usually sets forth in summary and in detail the projected construction program for that year. A large utility, in its current year plant budget, may indicate the program of expenditures for the current year and thereafter of the current year's authorizations and of the unexpended balances of prior authorizations which are incorporated in the current year's program.

38. It is important to bear in mind that gross additions and retirements are needed for the rate base. Construction budgets usually are concerned only with new construction. In some instances amounts pertaining to new construction on the budget summary are expressed as gross expenditures which include costs of removal and general overheads - the latter being added as a lump sum - and as net expenditures reflecting the deduction of salvage. A sheet for the individual budget item in the utility's budget may express the costs in terms of gross direct expenditures, consisting of labor and materials for new construction and for cost of removal, salvage credits and resulting net direct expenditures. These direct expenditures may be subject to additions of division or district overheads as well as general overheads. This same sheet may also show, as a memorandum, any related plant retirement.

39. A copy of the authorized budget for the basic test year should be reviewed. The copy to be reviewed should be the most recently revised, one which indicates the current view of projected additions and retirements for the balance of the

year. Only estimated additions as included in an authorized plant construction budget should be considered. Authorization is usually made by the board of directors or the owner. If a monthly construction budget control is maintained by the utility, such a control may show, for each budget item, the cumulative cost by months of the budget cost allocation and of the actual cost. A further guide in evaluating the budget estimates is the comparison, for each of a few prior years, of the budgeted gross additions and retirements with the actual gross additions and retirements.

40. A plant budget, among other things, indicates the estimated construction of specific major projects and of routine items such as telephone station apparatus and station installations, telephone and electric line extensions, services, meter set assemblies and distribution mains by reasons of new business, replacement or pressure betterments. In analyzing a plant budget, the bases of the unit costs and quantities used should be investigated to determine their reasonableness. The unit costs used may be related to the costs incurred for similar construction items during the previous year. The footages of new business distribution main installations and line extensions may be related to the estimated number of new customers and the distribution main replacements or pole line replacements may be based on a program in effect for a certain number of years.

CHAPTER 3 - DEPRECIATION

41. The purposes of the chapter on depreciation in a report on the operations of a major utility are to present the depreciation expenses applicable to the depreciable utility plant and the depreciation reserve to be used as a deduction for depreciation in the rate base. The depreciation expenses consist of those amounts (1) chargeable to the depreciation accounts, (2) chargeable to clearing accounts, and (3) in the case of water utilities, applicable to contributed water plant.

A - GENERAL CONSIDERATIONS

42. A comprehensive treatise of depreciation is contained in Standard Practice U-4, Determination of Straight-Line Remaining Life Depreciation Accruals, Consequently, the discussions in this chapter of U-5 on the development of depreciation expense and also of any other accruals to the depreciation reserve are brief and are intended only to outline some basic procedures to present the depreciation accruals and the depreciation reserves. Reference is made to Chapter 9 of U-4 entitled “General Considerations and Staff Procedures” in connection with the preparation of a staff report. However, certain deviations therefrom may be considered in view of some current procedures discussed below in this section.

43. All major utilities in California, except as denoted, use the straight-line remaining life method in determining depreciation accruals. (The Pacific Telephone and Telegraph company used the straight-line total life basis but also maintains memorandum records on the remaining life basis.) Each year all major utilities submit to the Commission their proposed depreciation rates to be used during the ensuing year. These rates are initially reviewed by the Depreciation Unit of the Staff Advisory Section. Rates, as accepted by this Unit, are submitted to the Commission for consideration and approval.

44. It is incumbent upon the engineer responsible for the preparation of this chapter on depreciation to review the status of the current depreciation rates with the Depreciation Unit. Further, unless any review shows that the kind and amount of plant to be added to an account during the basic test year or other special condition will materially influence the approved rate assigned to that account, the currently approved rates should be used. This procedure will obviate the inclusion of standard Form D-2

and some other preliminary steps as outlined in Chapter 9 of U-4. Any expected material change in the composition of any group of plant or the introduction of new rates by the utility in the proceeding will warrant a more detailed study of the depreciation rates.

B - DEPRECIATION EXPENSE

45. Depreciation expense is computed for depreciable plant in service but not for operative construction work in progress. Depreciation expense is considered as operating expense in rate proceedings when chargeable to the following accounts, which are listed in the currently adopted uniform systems of accounts:

Electric	Income Ac.	403 - Depreciation Expense
Gas	Income Ac	403 - Depreciation Expense
Telephone Oper.	Expense Ac.	608 - Depreciation
Water	Income Ac.	503 - Depreciation

46. For water utilities, depreciation expense for the depreciable portion of properties, as identified by the amounts in Ac. 265, Contributions in Aid of Construction, is chargeable to that account rather than to Ac. 503 (see page 35 of Uniform System of Accounts for Water Utilities Class A, B and C). Consequently, the depreciable plant to which the depreciation rates are applied must be so segregated.

47. In larger utilities, it is common procedure to charge depreciation expense on such depreciable properties as automobiles, trailers, aeroplanes, garage equipment, tools and work equipment, and power operated equipment to clearing accounts from which distributions or clearings are made of this expense to utility plant, operating expenses, or other accounts.

48. The total of the items enumerated above, namely, depreciation charges to the deprecation accounts, to contributions in aid of construction, and to the clearing accounts constitute the total accrual to the depreciation reserve.

49. If any depreciable additions during the basic test period are included for the full period by reason of their non-recurring nature, the depreciation expense on such plant, adjusted for any depreciation expense on any related retirements, must be included for the full period.

50. Any adjustment or change made to the weighted average utility plant of the prior test period for the purpose of showing a normal trend between the two test periods will necessitate a change in the depreciation expense for the prior test period

and, consequently, in the depreciation reserve. An example of such changes is shown following. This illustration assumes that the depreciable plant affected by the trending adjustment does not include transportation and work equipment.

		(Thous. of $)
Wt. Av. Depreciable Plant-Basic Test Year		$170,000
Wt. Av. Normal Increase of Utility Plant	$14,000	
Less Land and Transp. Equip - Est.	1,000	
Wt. Av. Normal Increase of Depr. Plant		13,000
Wt. Av. Depr. Plt. - Prior Test Year - Adj.		157,000
Depreciation Rate - Overall		0.025
Depr. Expense on Adjusted Plt. - Prior Period		3,930
Depr. Expense on Unadjusted Plt. - Prior Period		3,530
Increase to Prior Test Period's Depr. Exp. For Trending		400
Decrease in Wt.Av.Depr.Reserve (Assuming 50% Weighting)		200

51. A tabulation, which may be patterned after the following illustration, should be included to shown the depreciation expenses developed by the staff and a comparison for the basic test year with the utility's depreciation expense. As mentioned in Section A, a more detailed presentation will be required if any material change in the plant will occur or if new rates are introduced.

Depreciation Expense

Item	Staff 1964 Estimated	Staff 1965 Estimated	Utility 1965 Estimated	Utility Exceeds Staff Amount	Utility Exceeds Staff Percent
	(Thousands of Dollars)				
District					
Depr. Expense	$3,530	$4,250	$4,302	$52	1.2%
Adj. for Normal Growth	400	-	-	-	-
Total	3,930	4,250	4,302	52	1.2
Gen. Office Prorate	270	325	348	23	7.1
Total Depr. Exp	4,200	4,575	4,650	5	1.6

52. The staff's depreciation expenses for the general office prorate shown in the illustration above would be obtained from the general report prepared by the staff. They are included herein in order to ensure their inclusion in the summary of earnings.

C - DEPRECIATION RESERVE

53. The depreciation reserve for use in connection with the utility plant in service can be considered as the accumulated provision for depreciation of that plant. The several uniform systems of accounts in general prescribe that credits to the depreciation reserve account shall include amounts charged to the depreciation expense account, amounts charged to clearing accounts and, in the case of water utilities, amounts of depreciation applicable to utility plant donated to the utility; also, that at the time of retirement of depreciable plant in service, the reserve account shall be charged with the book cost or original cost of the property retired and the cost of removal and shall be credited with the salvage value and any other amounts recovered, such as insurance.

54. The deduction for depreciation reserve in the rate base will be on a weighted average basis. To the extent possible, estimated monthly balance of the depreciation reserve should be developed to be in harmony with the weighted average depreciable plant. In the estimated portions of the test periods the debits to the depreciation reserve for retirements and costs of removal and credits for salvage should be consistent in timing with the results of the staff's review and conclusions relative to the estimated retirements in the construction programs for the same periods.

55. To the extent that any retirements in the basic test period are associated with any non-recurring additions which are weighted for the full basic test period ("rolled back" to the beginning of that period), the depreciation reserve as of the beginning of the basic test period should be reduced by the amount of net retirements resulting from the charges for these retirements and the costs of removal and credit for salvage applicable thereto. The amount of the district depreciation reserve at the beginning of the basic test period, after reduction for the net retirements associated with the previously mentioned "roll back", will be the starting amount going into the basic test period. Consequently, this amount must be the "ending" amount for the adjusted depreciation reserve of the prior test period. This latter depreciation reserve would reflect, during the prior test period, the accruals on the adjusted depreciable utility plant and its weighted average amount, for practical purposes, would be less than the "ending amount" by one half of these accruals.

56. A tabulation, similar in form to that used for depreciation expense as

shown in Section B, should be included in this chapter relative to the depreciation reserves. This tabulation should include the general office prorated depreciation reserves and any other prorated reserves obtained from the general report. The totals therein can be transferred to the rate bases as depreciation reserve deductions.

CHAPTER 4 - RATE BASE

57. The preparation of the chapter on rate base is discussed under the following sections:

A - General

B - Utility Plant and Deductions for Reserves

C - Modifications

D - Working Capital

A - GENERAL

58. Rate base has been denoted in a decision of this Commission as being composed of investment in plant in service and working capital less certain adjustments for such items as contributions, customers' advances, non-operative plant and depreciation reserve (53 CPUC 385, 405). Although that rate base was in connection with a specific proceeding, its composition indicates in general items that must be given consideration in most rate bases, in addition to any other classes of plant and other reserves associated with the included plant.

59. A suggested format for the presentation of various components comprising a rate base is illustrated in the following Table 4-A of weighted average rate bases which also indicates the usual manner in which the rates bases developed in a proceeding are compared. In this table years 1964 and 1965 are used as the prior test period and basic test period, respectively.

B - UTILITY PLANT AND DEDUCTIONS FOR RESERVES

Utility Plant

60. The utility plant used in the rate base is composed of that plant as developed in the Utility Plant chapter of the report for the district or department and the prorate of any general office plant or plant common to more than one district or department as developed in the General Report applicable to the whole company. Appropriate references should be made as to the sources of the data.

Deduction for Depreciation Reserves

61. The depreciation reserves used as deductions are those developed in the depreciation chapter of the report for the district or depart5ment and the prorate of the depreciation reserve applicable to any general office plant or common plant as developed in the General Report.

Deductions for Other Reserves

62. Other reserves which may be related to any of the utility plant included in the rate base should be deducted. Also to be deducted are any remaining accumulated tax reserves resulting from the use of liberalized depreciation and accelerated amortization. (Decision No. 62585, 59 CPUC 119, 121).

C - MODIFICATIONS

63. Modifications to utility plant include, as applicable, those for contributions in aid of construction, customer advances for constructions, non-operative properties, plant held for future use, and affiliated interest. For contributions and customers' advances particularly, and endeavor should be made to establish a normal trend between the amounts for the two test periods.

Contributions in Aid of Construction

64. Electric, gas and water utilities, in accordance with the prescribed uniform system of accounts, include in the contributions in aid of construction account contributions in cash services or property from states, municipalities or other governmental agencies, individuals and others for construction purposes. Telephone utilities subject to FCC regulations are required to credit any contributions for plant to the accounts charged with the cost of such construction.

65. Contributions in aid of construction also arise when advances, on which no interest is paid, which customers have made to obtain service, have not been returned or refunded within the contract period. These contributions do not represent investment by the utility and should be deducted from the rate base. Also the extensions made from contributions may be uneconomical and should not be a burden to existing customers.

66. Governmental agencies are another source of contributions where relocations of utility facilities are involves. In such instances the replaced plant would be retired and charged, after net salvage adjustment, to the depreciation reserve. The amount of the money provided for relocation less the amount used to restore the

depreciation reserve for the unrealized depreciation occasioned by such retirement would be deducted from rate base as contributions in aid of construction. (See Decision No. 50449, 53 CPUC 385, 510)

67. The uniform system of accounts for water utilities provides that the balance of the contributions in aid of construction will be written off over a period equal to the actual service life of the property involved. The depreciation accrued on the depreciable portion of the contributed properties is chargeable to the contribution account rather than to depreciation expense. At the time of retirement of any contributed non-depreciable plant, the cost of such plant is chargeable to the contributions in aid of construction account.

Customer Advances for Construction

68. This account, for gas, electric, and water utilities, includes the unrefunded balance of advances by customers for construction which are to be refunded either wholly or in part. Refunds are to be made without interest. When a customer is refunded the entire amount to which he is entitled according to the agreement or rule under which the advance was made, the balance, if any, remaining in the account applicable to such advance is transferred to contributions in aid of construction. Until such monies for advances are refunded, the utilitiy is using property the cost of which was advanced by the customer and therefore such amounts are deducted from the utility plant in determining the rate base.

Non-operative Properties

69. Amounts included in utility plant for properties which are not used and useful in the utility's operations should be deducted therefrom. The appropriate depreciation reserve adjustments should also be made. If it is deemed appropriate to classify the plant as non-utility property, the accrued reserve applicable to that plant should also be transferred. If the plant should be retired, the charge to the depreciation reserve should be made together with charges for any cost of removal and credits for salvage. If the salvage is usable for utility purposes, the materials and supplies should be increased.

70. Determination of the status of any utility plant as being non-operative is primarily the functions of the operating branch or section participating in the report. However, concurrence should be established through the coordination of the work.

D - WORKING CAPITAL

71. Working capital is comprised of materials and supplies and working cash. In the development of rate bases, allowances for these two items are given consideration.

Materials and Supplies

72. The allowance for materials and suplies should reflect, to an extent deemed appropriate, a review of the classes comprising the company's stock, methods of requisitioning, purchasing and storing materials, delivering time, monthly issues, kinds and amounts of spare parts and emergency equipment carried and obsolete and junk material on hand. This Commission in Decision No. 46680 (51 PUC 419, 427) has stated:

> "… the allowance for materials and supplies should reflect an appropriate amount in rate base consistent with the level of materials and supplies which prudent operation of the utility requires be held on hand to meet the operating exigencies form time to time…" and " …in determining the amount of inventory which must be carried in stock, the utility of necessity must investigate the requirements of use, the volumes which may be necessary to meet operating, maintenance or construction programs as they may exist from time to time, the productions and delivery schedules from suppliers, …

73. To an extent deemed appropriate, the usages or issues of each of the various kinds of materials and supplies should be analyzed. To the extent that such past usage may be deemed applicable to the immediate future, the factor of average monthly usage can be a guide in the amount allowed for such materials.

74. Other factors to be considered in the determination of an allowance for each kind of materials and supplies are:

a. Time required to obtain stock data.

b. Time required for obtaining quotations and placing orders.

c. Delivery time.

As an example, if the average monthly usage is contemplated to be 100 units, if (1) and (b) require one month and (c) requires five months, then a six months' supply of 600 units is a minimum. However, a safety factor for delays in placing orders, delays in deliveries and for unusual issues should also be considered. Such a factor will increase the six months' supply to a more appropriate amount.

75. The allowance for materials and supplies may also reflect quantities held for emergencies, such as spare parts, spare equipment and spare lengths of pipe at remote locations. Materials being held which are obviously junk and have no apparent future use should not be included in any allowance.

Working Cash Allowance

76. The Commission has stated in Decision No. 41416 (48 CPUC 1, 22):

> "The purpose of including a working cash allowance in the rate base is to compensate the investors for capital which they have supplied to enable the company to operate efficiently and economically and for which they would not otherwise be compensated. If, through the availability and use of tax accruals, monies or other funds supplied by the subscribers, the investors are required to supply a smaller sum, their compensation should be proportionately less."

77. In the development of the allowance for working cash, reference should be made to Standard Practice U-16, Determination of Working Cash Allowance.

Item	Staff 1964 Estimated	Staff 1965 Estimated	Utility 1965 Estimated	Utility Exceeds Staff Amount	Utility Exceeds Staff Percent
	(Thousands of Dollars)				
Utility Plant					
Beginning of Year					
District Plant in Service	140,300	-	-	-	-%
District Oper. CWIP	3,500	-	-	-	-
Subtotal District	143,800	159,400	161,000	1,600	1.0
General Office Prorate	10,100	12,200	13,000	800	6.6
	153,900	171,600	174,000	2,400	1.4
Wt. Avg. Net Additions					
District Plant in Service	-	-	-	-	-
District Oper. CWIP	-	-	-	-	-
Subtotal Distrtict	6,800	21,000	21,500	500	2.4
General Office Prorate	700	800	900	100	12.5
	7,500	21,800	22,400	600	2.8
Adj. For Normal Growth	15,800	-	-	-	-
Total Wt. Avg. Utility Plant	177,200	193,400	196,400	3,000	1.6
Modifications					
Contrib. in Aide of Cons.	1,000	1,100	1,100	-	-
Customer Adv.for Cons.	3,000	3,500	3,500	-	-
Others (as appropriate)					
Materials and Supplies	1,800	1,950	1,950	-	-
Working Cash Allowance	1,300	1,500	1,700	200	13.3
Deductions for Reserves					
Depreciation	44,300	48,400	49,000	600	1.2
Others (as appropriate)					
Rate Base	132,000	143,850	146,450	2,600	1.8

SUMMARY OF
ANNUAL DEPRECIATION ACCRUAL AND RATE DETERMINATION
STRAIGHT-LINE REMAINING LIFE METHOD
YEAR _____

UTILITY _____
LOCATION _____

ACCOUNT NO.	DESCRIPTION	(1) GROSS PLANT (BEG. YEAR)	(A) EST. FUTURE NET SALVAGE (EST. GROSS SALVAGE LESS COST OF REMOVAL) %	(2) AMOUNT	(3) DEPRECIATION REERVE (BEG. YEAR)	(4) NET BALANCE (1)-(2)-(3)	(B) AVG. SERVICE LIFE (YRS.)	(C) AVERAGE AGE (YRS.)	(5) REMAIN-ING LIFE (YRS.)	(6) ANNUAL ACCRUAL (4)/(5)	(D) %OF GROSS PLT. (6)/(1) X 100
311	Structures and Improvements	$ 2,850	8	$228	$1,021	$ 1,601	40	13	27	59	2.1
312	Coll. & Impounding Reservoirs	1,702	-	-	1,510	192	75	67	8	24	1.4
315	Wells	11,291	-	-	4,120	7,171	30	10	20	359	3.2
324	Pumping Equipment	3,527	5	176	1,084	2,267	25	15	10	227	6.4
325	Other Pumping Plant	568	-	-	323	245	25	7	18	14	2.5
342	Reservoirs and Tanks	8,949	-	-	4,371	4,578	50	24	26	176	2.0
343	Trans. & Distribution Mains	58,574	-	-	21,220	37,354	60	29	31	1205	2.1
345	Services	8,128	-	-	2,911	5,217	40	13	27	193	2.4
346	Meters	5,602	10	560	1,576	3,466	35	10	25	139	2.5
348	Hydrants	580	3	17	265	298	50	19	31	10	1.7
349	Other Trans. & Distr.Plant	1,977	-	-	847	`1,130	20	7	13	87	4.4
372	Office Furn. & Equipment	3.355	-	-	1,085	2,270	15	5	10	227	6.8
	Total Depr. Plant	107,103	-	981	40,333	65,789				2720	2.5
Contributed Plant (Included Above)										See Note 1	
315	Wells	1,050	-	-	500	550				34	3.2
343	Trans. & Distr. Mains	3,500	-	-	875	2,625				74	2.1
345	Services	425	-	-	100	325				10	2.4
346	Meters	275	-	-	75	200				7	2.5
	Total Contr. Plant Debit Accrual to Ac. 265	5,250			1,550	3,700				125	2.4
	Debit to Ac. 503									2,595	

Note 1 - Accruals for contributed plant were computed by multiplying balances in Col. (1) by the depreciation rate, Col. (D), developed for the corresponding account.

(Signature) (Date)