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(9) The costs and benefits of exchange-traded allowance futures contracts used to protect the utility from the risk of unfavorable price changes (“hedging transactions”) shall be deferred in Account 186, Miscellaneous Deferred Debits, or Account 253, Other Deferred Credits, as appropriate. Such deferred amounts shall be included in Account 158.1, Allowance Inventory, in the month in which the related allowances are acquired, sold or otherwise disposed of. Where the costs or benefits of hedging transactions are not identifiable with specific allowances, the amounts shall be included in Account 158.1 when the futures contract is closed. The costs and benefits of exchange-traded allowance futures contracts entered into as a speculating activity shall be charged or credited to Account 421, Miscellaneous Nonoperating Income, or Account 426.5, Other Deductions, as appropriate.

§ 1767.16 Electric plant instructions.

(a) *Classification of electric plant at effective date of system of accounts.* (1) The electric plant accounts provided herein are the same as those contained in the prior system of accounts except for inclusion of accounts for nuclear production plant and 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.

(2) 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 USoA in effect at the time or in accordance with the discretion of management as exercised under a USoA, or under accounting practices previously followed.

(3) The detailed electric 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 electric plant after giving effect to any accumulated provision for depreciation or amortization shall be recorded in Account 114, Electric Plant Acquisition Adjustments. The original cost of electric plant shall be determined by analysis of the utility’s records or those of the predecessor or vendor companies with respect to electric plant previously acquired as operating units or systems and the difference between the original cost so determined, less accumulated provisions for depreciation and amortization and the cost to the utility with necessary adjustments for retirements from date of acquisition, shall be entered in Account 114, Electric Plant Acquisition Adjustments. Any difference between the cost of electric plant and its book cost, when not properly includible in other accounts, shall be recorded in Account 116, Other Electric Plant Adjustments.

(b) *Electric plant to be recorded at cost.* (1) All amounts included in the accounts for electric 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 electric 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 §1767.15 (s), Criteria for Classifying Leases, and is recorded in Account 101.1, Property Under Capital Lease, or Account 120.6, Nuclear Fuel Under Capital Leases. Where the term “cost” is used in the detailed plant accounts, it shall have the meaning stated in this paragraph (b).

(2) When the consideration given for property is other than cash, the value of such consideration shall be determined on a cash basis (see, however, the definition of cost in §1767.10). In the entry recording such transition, the actual consideration shall be described with sufficient particularity to identify it. The utility shall be prepared to furnish RUS the particulars of

its determination of the cash value of the consideration if other than cash.

(3) When property is purchased under a plan involving deferred payments, no charge shall be made to the electric plant accounts for interest, insurance, or other expenditures occasioned solely by such form of payment.

(4) The electric plant accounts shall not include the cost or other value of electric plant contributed to the company. Contributions in the form of money or its equivalent toward the construction of electric plant shall be credited to accounts charged with the cost of such construction. Plant constructed from contributions of cash or its equivalent shall be shown as a reduction to gross plant constructed when assembling cost data in work orders for posting to plant ledgers of accounts. The accumulated gross costs of plant accumulated in the work order shall be recorded as a debit in the plant ledger of accounts along with the related amount of contributions concurrently be recorded as a credit.

(c) *Components of construction cost.* The cost of construction properly includible in the electric plant accounts shall include, where applicable, the direct and overhead costs as listed and defined hereunder:

(1) *Contract work* includes amounts paid for work performed under contract by other companies, firms, or individuals, costs incident to the award of such contracts, and the inspection of such work.

(2) *Labor* includes the pay and expenses of employees of the utility engaged on construction work, and related workmen's compensation insurance, payroll taxes, and similar items of expense. It does not include the pay and expenses of employees which are distributed to construction through clearing accounts nor the pay and expenses included in other items hereunder.

(3) *Materials and supplies* includes the purchase price at the point of free delivery plus customs duties, excise taxes, the cost of inspection, loading and transportation, the related stores expenses, and the cost of fabricated materials from the utility's shop. In determining the cost of materials and supplies used for construction, proper

allowance shall be made for unused materials and supplies, for materials recovered from temporary structures used in performing the work involved, and for discounts allowed and realized in the purchase of materials and supplies.

NOTE: The cost of individual items of equipment of small value (for example, \$500 or less) or of short life, including small portable tools and implements, shall not be charged to utility plant accounts unless the correctness of the accounting therefor is verified by current inventories. The cost shall be charged to the appropriate operating expense or clearing accounts, according to the use of such items, or, if such items are consumed directly in construction work, the cost shall be included as part of the cost of the construction.

(4) *Transportation* includes the cost of transporting employees, materials and supplies, tools, purchased equipment, and other work equipment (when not under own power) to and from points of construction. It includes amounts paid to others as well as the cost of operating the utility's own transportation equipment. (See Item in paragraph (c)(5) of this section.)

(5) *Special machine service* includes the cost of labor (optional), materials and supplies, depreciation, and other expenses incurred in the maintenance, operation and use of special machines, such as steam shovels, pile drivers, derricks, ditchers, scrapers, material unloaders, and other labor saving machines; also expenditures for rental, maintenance and operation of machines of others. It does not include the cost of small tools and other individual items of small value or short life which are included in the cost of materials and supplies. (See Item in paragraph (c)(3) of this section.) When a particular construction job requires the use for an extended period of time of special machines, transportation or other equipment, the net book cost thereof, less the appraised or salvage value at time of release from the job, shall be included in the cost of construction.

(6) *Shop service* includes the proportion of the expense of the utility's shop department assignable to construction work except that the cost of fabricated materials from the utility's shop shall be included in "materials and supplies."

(7) *Protection* includes the cost of protecting the utility's property from fire or other casualties and the cost of preventing damages to others, or to the property of others, including payments for discovery or extinguishment of fires, cost of apprehending and prosecuting incendiaries, witness fees in relation thereto, amounts paid to municipalities and others for fire protection, and other analogous items of expenditures in connection with construction work.

(8) *Injuries and damages* includes expenditures or losses in connection with construction work on account of injuries to persons and damages to the property of others; also the cost of investigation of and defense against actions for such injuries and damages. Insurance recovered or recoverable on account of compensation paid for injuries to persons incident to construction shall be credited to the account or accounts to which such compensation is charged. Insurance recovered or recoverable on account of property damages incident to construction shall be credited to the account or accounts charged with the cost of the damages.

(9) *Privileges and permits* includes payments for and expenses incurred in securing temporary privileges, permits or rights in connection with construction work, such as for the use of private or public property, streets, or highways, but it does not include rents, or amounts chargeable as franchises and consents for which see Account 302, Franchises and Consents.

(10) *Rents* includes amounts paid for the use of construction quarters and office space occupied by construction forces and amounts properly includible in construction costs for such facilities jointly used.

(11) *Engineers and supervision* includes the portion of the pay and expenses of engineers, surveyors, draftsmen, inspectors, superintendents and their assistants applicable to construction work.

(12) *General administration capitalized* includes the portion of the pay and expenses of the general officers and administrative and general expenses applicable to construction work.

(13) *Engineering services* includes amounts paid to other companies, firms, or individuals engaged by the utility to plan, design, prepare estimates, supervise, inspect, or give general advice and assistance in connection with construction work.

(14) *Insurance* includes premiums paid or amounts provided or reserved as self-insurance for the protection against loss and damages in connection with construction, by fire or other casualty, injuries or deaths of persons other than employees, damages to property of others, defalcation of employees and agents, and the non-performance of contractual obligations of others. It does not include workmen's compensation or similar insurance on employees included as "labor" in Item in paragraph (c)(2) of this section.

(15) *Law expenditures* includes the general law expenditures incurred in connection with construction and the court and legal costs directly related thereto, other than law expenses included in "Protection," Item in paragraph (c)(7) of this section, and in Injuries and damages, Item in paragraph (c)(8) of this section.

(16) *Taxes* includes taxes on physical property (including land) during the period of construction and other taxes properly includible in construction costs before the facilities become available for service.

(17) *Allowance for funds used during construction* includes the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used, not to exceed, without prior approval of RUS, allowances computed in accordance with the formula prescribed in Item in paragraph (c)(17)(i) of this section. No allowance for funds used during construction charges shall be included in these accounts upon expenditures for construction projects which have been abandoned.

(i) The formula and elements for the computation of the allowance for funds used during construction shall be:

$$A_i = s \left(\frac{S}{W} \right) + d \left(\frac{D}{D+P+C} \right) \left(1 - \frac{S}{W} \right)$$

$$A_c = \left[1 - \frac{S}{W} \right] \left[P \left(\frac{P}{D+P+C} \right) + c \left(\frac{C}{D+P+C} \right) \right]$$

Where:

- A_i = Gross allowance for borrowed funds used during construction rate.
- A_c = Allowance for other funds used during construction rate.
- S = Average short-term debt.
- s = Short-term debt interest rate.
- D = Long-term debt.
- d = Long-term debt interest rate.
- P = Preferred stock.
- p = Preferred stock cost rate.
- C = Patronage capital assigned.
- c = Entity's incremental borrowing rate.
- W = Average balance in construction work in progress plus nuclear fuel in process of refinement, conversion, enrichment, and fabrication.

(ii) The rate shall be determined annually.

(A) The balance for long-term debt, preferred stock, and patronage capital assigned shall be the actual book balances as of the end of the prior year.

(B) The cost rate for long-term debt and preferred stock shall be the weighted average cost.

(C) The cost rate for patronage capital assigned shall be the entity's incremental borrowing rate.

(D) The short-term debt balances and related cost and the average balance for construction work in progress plus nuclear fuel in process of refinement, conversion, enrichment, and fabrication shall be estimated for the current year with appropriate adjustments as actual data becomes available.

NOTE: When only a portion of a plant or project is placed in operation or is completed and ready for service but the construction work as a whole is incomplete, that part of the cost of the property placed in operation or ready for service shall be treated as "Electric Plant in Service," and an allowance for funds used during construction thereon as a charge to construction shall cease. Allowance for funds used during construction on that part of the cost of the plant which is incomplete may continue to be charged to construction until such time as it is placed in operation or is ready for

service, except as limited in Item in paragraph (c)(17) of this section.

(18) *Earnings and expenses during construction.* The earnings and expenses during construction shall constitute a component of construction costs.

(i) The earnings shall include revenues received or earned for power produced by generating plants during the construction period and sold or used by the utility.

(A) Where such power is sold to an independent purchaser before intermingling with power generated by other plants, the credit shall consist of the selling price of the energy.

(B) Where the power generated by a plant under construction is delivered to the utility's electric system for distribution and sale, or is delivered to an associated company, or is delivered to and used by the utility for purposes other than distribution and sale (for manufacturing or industrial use, for example), the credit shall be the fair value of the energy so delivered.

(C) Revenue shall also include rentals for lands, buildings, and other property, and miscellaneous receipts not properly includible in other accounts.

(ii) Expenses shall consist of the cost of operating the power plant, and other costs incident to the production and delivery of the power for which construction is credited under paragraph (c)(18)(i) of this section, including the cost of repairs and other expenses of operating and maintaining lands, buildings, and other property, and other miscellaneous and like expenses not properly includible in other accounts.

(19) *Training costs.* (i) When it is necessary that employees be trained to operate or maintain plant facilities that are being constructed and such facilities are not conventional in nature, or are new to the company's operations,

these costs may be capitalized as a component of construction cost.

(ii) Once plant is placed in service, the capitalization of training costs shall cease and subsequent training costs shall be expensed. (See §1767.17 (d).)

(20) *Studies.* (i) Studies include the costs of studies such as nuclear operational, safety, or seismic studies, or environmental studies mandated by regulatory bodies relative to plant under construction.

(ii) Studies relative to facilities in service shall be charged to Account 183, Preliminary Survey and Investigation Charges.

(d) *Overhead construction costs.* (1) All overhead construction costs, such as engineering, supervision, general office salaries and expenses, construction engineering and supervision performed by others than the accounting utility, law expenses, insurance, injuries and damages, relief and pensions, taxes and interest, shall be charged to particular jobs or units on the basis of the amounts of such overheads reasonably applicable thereto, to the end that each job or unit shall bear its equitable proportion of such costs and that the entire cost of the unit, both direct and overhead, shall be deducted from the plant accounts as the time the property is retired.

(2) As far as practicable, the determination of payroll charges includible in construction overheads shall be based on time card distributions thereof.

(i) Where this procedure is impractical, special studies shall be made periodically of the time of supervisory employees devoted to construction activities to the end that only such overhead costs as have a definite relation to construction shall be capitalized.

(ii) The addition to direct construction cost of arbitrary percentages or amounts to cover assumed overhead costs is not permitted.

(3) The records supporting the entries for overhead constructions costs shall be so kept as to show:

(i) The total amount of each overhead for each year;

(ii) The nature and amount of each overhead expenditure charged to each

construction work order and to each electric plant account; and

(iii) The bases of distribution of such costs.

(e) *Electric plant purchased or sold.* (1) When electric plant constituting an operating unit or system is acquired by purchase, merger, consolidation, liquidation, or otherwise, after the effective date of this system of accounts, the costs of acquisition, including expenses incidental thereto properly includible in electric plant, shall be charged to Account 102, Electric Plant Purchased or Sold.

(2) The accounting for the acquisition shall then be completed as follows:

(i) The original cost of plant, estimated if not known, shall be credited to Account 102, Electric Plant Purchased or Sold, and concurrently charged to the appropriate electric plant in service accounts and to Account 104, Electric Plant Leased to Others; Account 105, Electric Plant Held for Future Use; and Account 107, Construction Work in Progress—Electric, as appropriate.

(ii) The depreciation and amortization applicable to the original cost of the properties purchased shall be charged to Account 102, Electric Plant Purchased or Sold, and concurrently credited to the appropriate account for accumulated provision for depreciation or amortization.

(iii) The cost to the utility of any property includible in Account 121, Nonutility Property, shall be transferred thereto.

(iv) The amount remaining in Account 102, Electric Plant Purchased or Sold, shall then be closed to Account 114, Electric Plant Acquisition Adjustments.

(3) If property acquired in the purchase of an operating unit or system is in such physical condition when acquired that it is necessary to substantially rehabilitate it in order to bring the property up to the standards of the utility, the cost of such work, except replacements, shall be accounted for as a part of the purchase price of the property.

(4) When any property acquired as an operating unit or system includes duplicate or other plant which will be retired by the accounting utility in the

reconstruction of the acquired property or its consolidation with previously owned property, the proposed accounting for such property shall be presented to RUS.

(5) In connection with the acquisition of electric plant constituting an operating unit or system, the utility shall procure, if possible, all existing records relating to the property acquired or certified copies thereof, and shall preserve such records in conformity with regulations or practices governing the preservation of records of its own construction.

(6) When electric plant constituting an operating unit or system is sold, conveyed, or transferred to another by sale, merger, consolidation, or otherwise, the book cost of the property sold or transferred to another shall be credited to the appropriate utility plant accounts, including amounts carried in Account 114, Electric Plant Acquisition Adjustments, and the amounts (estimated if not known) carried with respect thereto in the accounts for accumulated provision for depreciation and amortization and in Account 252, Customer Advances for Construction, shall be charged to such accounts and contra entries made to Account 102, Electric Plant Purchased or Sold. Unless otherwise ordered by RUS, the difference, if any, between:

(i) The net amount of debits and credits, and

(ii) The consideration received for the property (less commissions and other expenses of making the sale) shall be included in Account 421.1, Gain on Disposition of Property, or Account 421.2, Loss on Disposition of Property. (See Account 102, Electric Plant Purchased or Sold.)

NOTE: In cases where existing utilities merge or consolidate because of financial or operating reasons or statutory requirements rather than as a means of transferring title of purchased properties to a new owner, the accounts of the constituent utilities, with the approval of RUS, may be combined. In the event original cost has not been determined, the resulting utility shall proceed to determine such cost as outlined herein.

(f) *Expenditures on leased property.* (1) The cost of substantial initial improvements (including repairs, rearrangements, additions, and betterments) made in the course of preparing for

utility service property leased for a period of more than one year, and the cost of subsequent substantial additions, replacements, or betterments to such property, shall be charged to the electric plant account appropriate for the class of property leased.

(i) If the service life of the improvements is terminable by action of the lease, the cost, less net salvage, of the improvements shall be spread over the life of the lease by charges to Account 404, Amortization of Limited-Term Electric Plant.

(ii) If the service life is not terminated by action of the lease but by depreciation proper, the cost of the improvements, less net salvage, shall be accounted for as depreciable plant. The provisions of (1) are applicable to property leased under either capital leases or operating leases.

(2) If improvements made to property leased for a period of more than one year are of relatively minor cost, or if the lease is for a period of not more than one year, the cost of the improvements shall be charged to the account in which the rent is included, either directly or by amortization thereof.

(g) *Land and land rights.* (1) The accounts for land and land rights shall include the cost of land owned in fee by the utility and rights, interests, and privileges held by the utility in land owned by others, such as leaseholds, easements, water and water power rights, diversion rights, submersion rights, rights-of-way, and other like interests in land.

(i) Do not include in the accounts for land and land rights and rights-of-way costs incurred in connection with first clearing and grading of land and rights-of-way and the damage costs associated with the construction and installation of plant.

(ii) Such costs shall be included in the appropriate plant accounts directly benefited.

(2) Where special assessments for public improvements provide for deferred payments, the full amount of the assessments shall be charged to the appropriate land account and the unpaid balance shall be carried in an appropriate liability account.

(i) Interest on unpaid balances shall be charged to the appropriate interest account.

(ii) If any part of the cost of public improvements is included in the general tax levy, the amount thereof shall be charged to the appropriate tax account.

(3) The net profit from the sale of timber, cord wood, sand, gravel, other resources or other property acquired with the rights-of-way or other lands shall be credited to the appropriate plant accounts to which related. Where land is held for a considerable period of time and timber and other natural resources on the land at the time of purchase increase in value, the net profit (after giving effect to the cost of the natural resources) from the sale of timber or its products or other natural resources shall be credited to the appropriate utility operating income account when such land has been recorded in Account 105, Electric Plant Held for Future Use, or classified as plant in service, otherwise to Account 421, Miscellaneous Nonoperating Income.

(4) Separate entries shall be made for the acquisition, transfer, or retirement of each parcel of land, and each land right (except rights-of-way for distribution lines), or water right, having a life of more than one year.

(i) A record shall be maintained showing the nature of ownership, full legal description, area, map reference, purpose for which used, city, county, and tax district on which situated, from whom purchased or to whom sold, payment given or received, other costs, contract date and number, date of recording of deed, and book and page of record.

(ii) Entries transferring or retiring land or land rights shall refer to the original entry recording its acquisition.

(5) Any difference between the amount received from the sale of land or land rights, less agents' commissions and other costs incident to the sale, and the book cost of such land or rights, shall be included in Account 411.6, Gains from Disposition of Utility Plant, or 411.7, Losses from Disposition of Utility Plant, when such property has been recorded in Account 105, Elec-

tric Plant Held for Future Use, otherwise to Account 421.1, Gain on Disposition of Property, or 421.2, Loss on Disposition of Property, as appropriate, unless a reserve therefor has been authorized and provided. Appropriate adjustments of the accounts shall be made with respect to any structures or improvements located on land sold.

(6) The cost of buildings and other improvements (other than public improvements) shall not be included in the land accounts. If, at the time of acquisition of an interest in land, such interest extends to buildings or other improvements (other than public improvements) which are then devoted to utility operations, the land and improvements shall be separately appraised and a cost allocated to land and buildings or improvements on the basis of the appraisals. If the improvements are removed or wrecked without being used in operations, the cost of removing or wrecking shall be charged and the salvage credited to the account in which the cost of land is recorded.

(7) When the purchase of land for electric operations requires the purchase of more land than needed for such purposes, the charge to the specific land account shall be based upon the cost of the land purchased, less the fair market value of that portion of the land which is not to be used in utility operations. The portion of the cost measured by the fair market value of the land not to be used shall be included in Account 105, Electric Plant Held for Future Use, or Account 121, Nonutility Property, as appropriate.

(8) Provisions shall be made for amortizing amounts carried in the accounts for limited-term interest in land so as to apportion equitably the cost of each interest over the life thereof. (See Account 111, Accumulated Provision for Amortization of Electric Utility Plant, and Account 404, Amortization of Limited-Term Electric Plant.)

(9) The items of cost to be included in the accounts for land and land rights are as follows:

(i) Bulkheads, buried, not requiring maintenance or replacement;

(ii) First cost of acquisition including mortgages and other liens assumed (but not subsequent interest thereon);

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(iii) Condemnation proceedings, including court and counsel costs;

(iv) Consents and abutting damages;

(v) Conveyancers' and notaries' fees;

(vi) Fees, commissions, and salaries to brokers, agents, and other in connection with the acquisition of the land or land rights;

(vii) Leases, cost of voiding upon purchase to secure possession of land;

(viii) Removing, relocating, or reconstructing property of others, such as buildings, highways, railroads, bridges, cemeteries, churches, telephone and power lines, etc., in order to acquire quiet possession;

(ix) Retaining walls unless identified with structures;

(x) Special assessments levied by public authorities for public improvements on the basis of benefits for new roads, new bridges, new sewers, new curbing, new pavements, and other public improvements, but not taxes levied to provide for the maintenance of such improvements;

(xi) Surveys in connection with the acquisition, but not amounts paid for topographical surveys and maps where such costs are attributable to structures or plant equipment erected or to be erected or installed on such land;

(xii) Taxes assumed, accrued to date of transfer of title;

(xiii) Title, examining, clearing, insuring, and registering in connection with the acquisition and defending against claims relating to the period prior to the acquisition;

(xiv) Appraisals prior to closing title;

(xv) Cost of dealing with distributees or legatees residing outside of the state or county, such as recording power of attorney, recording will or exemplification of will, recording satisfaction of state tax;

(xvi) Filing satisfaction of mortgage;

(xvii) Documentary stamps;

(xviii) Photographs of property at acquisition;

(xix) Fees and expenses incurred in the acquisition of water rights and grants;

(xx) Cost of fill to extend bulkhead line over land under water, where riparian rights are held, which is not occasioned by the erection of a structure;

(xxi) Sidewalks and curbs constructed by the utility on public property; and

(xxii) Labor and expenses in connection with securing rights of way, where performed by company employees and company agents.

(h) *Structures and improvements.* (1) The accounts for structures and improvements shall include the cost of all buildings and facilities to house, support, or safeguard property or persons, including all fixtures permanently attached to and made a part of buildings and which cannot be removed therefrom without cutting into the walls, ceilings, or floors, or without in some way impairing the buildings, and improvements of a permanent character on or to land.

(2) Also include those costs incurred in connection with the first clearing and grading of land and rights-of-way and the damage costs associated with construction and installation of plant.

(3) The cost of specially provided foundations not intended to outlast the machinery or apparatus for which provided, and the cost of angle irons, and castings installed at the base of an item of equipment, shall be charged to the same account as the cost of the machinery, apparatus, or equipment.

(4) Minor buildings and structures, such as valve towers, patrolmen's towers, telephone stations, fish and wildlife, and recreation facilities which are used directly in connection with or form a part of a reservoir, dam or waterway shall be considered a part of the facility in connection with which constructed or operated and the cost thereof accounted for accordingly.

(5) Where furnaces and boilers are used primarily for furnishing steam for some particular department and only incidentally for furnishing steam for heating a building and operating the equipment therein, the entire cost of such furnaces and boilers shall be charged to the appropriate plant account, and no part to the building account.

(6) Where the structure of a dam forms also the foundation of the power plant building, such foundation shall be considered a part of the dam.

(7) The cost of disposing of materials excavated in connection with construction of structures shall be considered as a part of the cost of such work, except when such material is used for filling, the cost of loading, hauling, and dumping shall be equitably apportioned between the work in connection with which the removal occurs and the work in connection with which the material is used; and when such material is sold, the net amount realized from such sales shall be credited to the work in connection with which the removal occurs. If the amount realized from the sale of excavated materials exceeds the removal costs and the costs in connection with the sale, the excess shall be credited to the land account in which the site is carried.

(8) Lighting or other fixtures temporarily attached to building for purposes of display or demonstration shall not be included in the cost of the building but in the appropriate equipment account.

(9) The items of cost to be included in the accounts for structures and improvements are as follows:

- (i) Architects' plans and specifications including supervision;
- (ii) Ash pits (when located within the building);
- (iii) Athletic field structures and improvements;
- (iv) Boilers, furnaces, piping, wiring, fixtures, and machinery for heating, lighting, signaling, ventilating, and air conditioning systems, plumbing, vacuum cleaning systems, incinerator and smoke pipe, flues, etc;
- (v) Bulkheads, including dredging, riprap fill, piling, decking, concrete, fenders, etc., when exposed and subject to maintenance and replacement;
- (vi) Chimneys;
- (vii) Coal bins and bunkers;
- (viii) Commissions and fees to brokers, agents, architects and others;
- (ix) Conduit (not to be removed) with its contents;
- (x) Damages to abutting property during construction;
- (xi) Docks;
- (xii) Door checks and door stops;
- (xiii) Drainage and sewerage systems;
- (xiv) Elevators, cranes, hoists, etc., and the machinery for operating them;

(xv) Excavation, including shoring, bracing, bridging, refill and disposal of excess excavated material, cofferdams around foundation, pumping water from cofferdams during construction and test borings;

(xvi) Fences and fence curbs (not including protective fences isolating items of equipment, which shall be charged to the appropriate equipment accounts);

(xvii) Fire protection systems when forming a part of a structure;

(xviii) Flagpole;

(xix) Floor covering (permanently attached);

(xx) Foundations and piers for machinery, constructed as a permanent part of a building or other item listed herein;

(xxi) Grading and clearing when directly occasioned by the building of a structure;

(xxii) Intrasite communication system, poles, pole fixtures, wires, and cable;

(xxiii) Landscaping, lawns, shrubbery, etc.;

(xxiv) Leases, voiding upon purchase to secure possession of structures;

(xxv) Leased property, expenditures on;

(xxvi) Lighting fixtures and outside lighting system;

(xxvii) Mailchutes when part of a building;

(xxviii) Marquee, permanently attached to the building;

(xxix) Painting, first cost;

(xxx) Permanent paving, concrete, brick, flagstone, asphalt, etc., within the property lines;

(xxxi) Partitions, including movable;

(xxxii) Permits and privileges;

(xxxiii) Platforms, railings and gratings when constructed as a part of a structure;

(xxxiv) Power boards for services to a building;

(xxxv) Refrigerating systems for general use;

(xxxvi) Retaining walls except when identified with land;

(xxxvii) Roadways, railroads, bridges, and trestles intrasite except railroads provided for in equipment accounts;

(xxxviii) Roofs;

(xxxix) Scales, connected to and forming a part of a structure;

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- (xl) Screens;
- (xli) Sewer systems, for general use;
- (xlii) Sidewalks, culverts, curbs and streets constructed by the utility on its property;
- (xliii) Sprinkling systems;
- (xliv) Sump pumps and pits;
- (xlv) Stacks—brick, steel, or concrete, when set on foundation forming part of general foundation and steel-work of a building;
- (xlvi) Steel inspection during construction;
- (xlvii) Storage facilities constituting a part of a building;
- (xlviii) Storm doors and windows;
- (xlix) Subways, areaways, and tunnels, directly connected to and forming part of a structure;
- (1) Tanks, constructed as part of a building or as a distinct structural unit;
 - (i) Temporary heating during construction (net cost);
 - (ii) Temporary water connection during construction (net cost);
 - (iii) Temporary shanties and other facilities used during construction (net cost);
 - (iv) Topographical maps;
 - (v) Tunnels, intake and discharge, when constructed as part of a structure, including sluice gates, and those constructed to house mains;
 - (vi) Vaults constructed as part of a building;
 - (vii) Watchmen's sheds and clock systems (net cost when used during construction only);
 - (lviii) Water basins or reservoirs;
 - (lix) Water front improvements;
 - (lx) Water meters and supply system for a building or for general company purposes;
 - (lxi) Water supply piping, hydrants, and wells;
 - (lxii) Wharves;
 - (lxiii) Window shades and ventilators;
 - (lxiv) Yard drainage system;
 - (lxv) Yard lighting system; and
 - (lxvi) Yard surfacing, gravel, concrete, or oil (First cost only).

NOTE: Structures and improvements accounts shall be credited with the cost of coal bunkers, stacks, foundations, subways, and tunnels, the use of which has terminated with the removal of the equipment with which they are associated even though they have not been physically removed.

(i) *Equipment.* (1) The cost of equipment chargeable to the electric plant accounts, unless otherwise indicated in the text of an equipment account, includes the net purchase price thereof, sales taxes, investigation and inspection expenses necessary to such purchase, expenses of transportation when borne by the utility, labor employed, materials, and supplies consumed, and expenses incurred by the utility in unloading and placing the equipment in readiness to operate.

(2) Also include those costs incurred in connection with the first clearing and grading of land and rights-of-way and the damage costs associated with construction and installation of plant.

(3) Exclude from equipment accounts hand and other portable tools, which are likely to be lost or stolen or which have relatively small value (for example, \$500 or less) or short life, unless the correctness of the accounting therefor as electric plant is verified by current inventories.

(i) Special tools acquired and included in the purchase price of equipment shall be included in the appropriate plant accounts.

(ii) Portable drills and similar tool equipment when used in connection with the operation and maintenance of a particular plan or department, such as production, transmission, or distribution or in "stores", shall be charged to the plant accounts appropriate for their use.

(4) The equipment accounts shall include angle irons and similar items which are installed at the base of an item of equipment, but piers and foundations which are designed to be as permanent as the buildings which house the equipment, or which are constructed as a part of the building and which cannot be removed without cutting into the walls, ceilings, or floors or, without in some way impairing the building, shall be included in the building accounts.

(5) The equipment accounts shall include the necessary costs of testing or running a plant or parts thereof during an experimental or test period prior to such plant becoming ready for or placed in service.

(i) The utility shall furnish RUS with full particulars of and justification for

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any test or experimental run extending beyond a period of 120 days for nuclear plant, and a period of 90 days for all other plant.

(ii) Such particulars shall include a detailed operational and downtime log showing days of production, gross kilowatts generated by hourly increments, types, and periods of outages by hours with explanation thereof, beginning with the first date the equipment was either tested or synchronized on the line to the end of the test period.

(6) The cost of efficiency or other tests made subsequent to the date equipment becomes available for service shall be charged to the appropriate expense accounts, except that tests to determine whether equipment meets the specifications and requirements as to efficiency, or performance guaranteed by manufacturers, made after operations have commenced and within the period specified in the agreement or contract of purchase, may be charged to the appropriate electric plant accounts.

(j) *Additions and retirements of electric plant.* (1) For the purpose of avoiding undue refinement in accounting for additions to and retirements and replacements of electric plant, all property shall be considered as consisting of retirement units and minor items of property.

(2) The addition and retirement of retirement units shall be accounted for as follows:

(i) When a retirement unit is added to electric plant, the cost thereof shall be added to the appropriate electric plant account, except that when units are acquired in the acquisition of any electric plant constituting an operating system, they shall be accounted for as provided in paragraph (e) of this section.

(ii) When a retirement unit is retired from electric plant, with or without replacement, the book cost thereof shall be credited to the electric plant account in which it is included, determined in the manner set forth in Item in paragraph (j)(4) of this section. If the retirement unit is of a depreciable class, the book cost of the unit retired and credited to electric plant shall be charged to the accumulated provision for depreciation applicable to such

property. The cost of removal and the salvage shall be charged or credited, as appropriate, to such depreciation account.

(3) The addition and retirement of minor items of property shall be accounted for as follows:

(i) When a minor item of property which did not previously exist is added to plant, the cost thereof shall be accounted for in the same manner as for the addition of a retirement unit, as set forth in Item in paragraph (j)(2)(i) of this section, if a substantial addition results, otherwise the charge shall be to the appropriate maintenance expense account.

(ii) When a minor item of property is retired and not replaced, the book cost thereof shall be credited to the electric plant account in which it is included; and, in the event the minor item is a part of depreciable plant, the account for accumulated provision for depreciation shall be charged with the book cost and cost of removal and credited with the salvage. If, however, the book cost of the minor item retired and not replaced has been or will be accounted for by its inclusion in the retirement unit of which it is a part when such unit is retired, no separate credit to the property account is required when such minor item is retired.

(iii) When a minor item of depreciable property is replaced independently of the retirement unit of which it is a part, the cost of replacement shall be charged to the maintenance account appropriate for the item, except that if the replacement effects a substantial betterment (the primary aim of which is to make the property affected more useful, more efficient, of greater durability, or of greater capacity), the excess cost of the replacement over the estimated cost at current prices of replacing without betterment shall be charged to the appropriate electric plant accounts.

(4) The book cost of electric plant retired shall be the amount at which such property is included in the electric plant accounts, including all components of construction costs. The book cost shall be determined from the utility's records and if this cannot be done, it shall be estimated. When it is impracticable to determine the book

cost of each unit, due to the relatively large number or small cost thereof, an appropriate average book cost of the units with due allowance for any differences in size and character, shall be used as the book cost of the units retired.

(5) The book cost of land retired shall be credited to the appropriate land accounts. If the land is sold, the difference between the book cost (less any accumulated provision for depreciation or amortization therefore which has been authorized and provided) and the sale price of the land (less commissions and other expenses of making the sale) shall be recorded in Account 411.6, Gains from Disposition of Utility Plant, or Account 411.7, Losses from Disposition of Utility Plant, when the property has been recorded in Account 105, Electric Plant Held for Future Use, otherwise to Accounts 421.1, Gain on Disposition of Property, or 421.2, Loss on Disposition of Property, as appropriate. If the land is not used in utility service but is retained by the utility, the book cost shall be charged to Account 105, Electric Plant Held for Future Use, or Account 121, Nonutility Property, as appropriate.

(6) The book cost less net salvage of depreciable electric plant retired shall be charged in its entirety to Account 108, Accumulated Provision for Depreciation of Electric Utility Plant in Service. Any amounts which, by approval or order of RUS, are charged to Account 182.1, Extraordinary Property Losses, shall be credited to Account 108.

(7) The accounting for the retirement of amounts included in Account 302, Franchises and Consents, and Account 303, Miscellaneous Intangible Plant, and the items of limited-term interest in land included in the accounts for land and land rights, shall be as provided for in the text of Account 111, Accumulated Provision for Amortization of Electric Utility Plant in Service; Account 404, Amortization of Limited-Term Electric Plant; and Account 405, Amortization of Other Electric Plant.

(k) *Work order and property record system required.* (1) Each utility shall record all construction and retirements of electric plant by means of work orders or job orders. Separate work or-

ders may be opened for additions to and retirements of electric plant or the retirements may be included with the construction work order, provided, however, that all items relating to the retirements shall be kept separate from those relating to construction and provided, further, that any maintenance costs involved in the work shall likewise be segregated.

(2) Each utility shall keep its work order system so as to show the nature of each addition to or retirement of electric plant, the total cost thereof, the source or sources of costs, and the electric plant account or accounts to which charged or credited. Work orders covering jobs of short duration may be cleared monthly.

(3) Each utility shall maintain records in which, for each plant account, the amounts of the annual additions and retirements are classified so as to show the number and cost of the various record units or retirement units.

(1) *Transfers of property.* When property is transferred from one electric plant account to another, from one utility department to another, such as from electric to gas, from one operating division or area to another, to or from Account 101, Electric Plant in Service; Account 104, Electric Plant Leased to Others; Account 105, Electric Plant Held for Future Use, and Account 121, Nonutility Property, the transfer shall be recorded by transferring the original cost thereof from the one account, department, or location to the other. Any related amounts carried in the accounts for accumulated provision for depreciation or amortization shall be transferred in accordance with the segregation of such accounts.

(m) *Common utility plant.* (1) If the utility is engaged in more than one utility service, such as electric, gas, and water, and any of its utility plant is used in common for several utility services or for other purposes to such an extent and in such manner that it is impracticable to segregate it by utility services currently in the accounts, such property, with the approval of RUS, may be designated and classified as "common utility plant."

(2) The book amount of utility plant designated as common plant shall be

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included in Account 118, Other Utility Plant, and if applicable in part to the electric department, shall be segregated and accounted for in sub-accounts as electric plant is accounted for in Accounts 101 to 107, inclusive, and electric plant adjustments in Account 116, Other Electric Plant Adjustments; any amounts classifiable as common plant acquisition adjustments or common plant adjustments shall be subject to disposition as provided in Paragraphs C and B of Accounts 114 and 116, respectively, for amounts classified in those accounts. The original cost of common utility plant in service shall be classified according to the detailed utility plant accounts appropriate for the property.

(3) The utility shall be prepared to show, at any time, and to report to RUS annually, or more frequently, if required, and by utility plant accounts (301 to 399) the book cost of common utility plant, the allocation of such cost to the respective departments using the common utility plant, and the basis of the allocation.

(4) The accumulated provision for depreciation and amortization of the utility shall be segregated so as to show the amount applicable to the property classified as common utility plant.

(5) The expenses of operation, maintenance, rents, depreciation and amortization of common utility plant shall be recorded in the accounts prescribed herein, but designated as common expenses, and the allocation of such expenses to the departments using the common utility plant shall be supported in such manner as to reflect readily the basis of allocation used.

(n) *Transmission and distribution plant.* For the purpose of this system of accounts:

(1) *Transmission system* is all land, conversion structures, and equipment employed at a primary source of supply (i.e. generating station, or point of receipt in the case of purchased power) to change the voltage or frequency of electricity for the purpose of its more efficient or convenient transmission; all land, structures, lines, switching and conversion stations, high tension apparatus, and their control and protective equipment between a generating or receiving point and the en-

trance to a distribution center or wholesale point; and all lines and equipment whose primary purpose is to augment, integrate or tie together the sources of power supply.

(2) *Distribution system* is all land, structures, conversion equipment, lines, line transformers, and other facilities employed between the primary source of supply (i.e. generating station, or point of receipt in the case of purchased power) and of delivery to customers, which are not includible in transmission system, as defined in Item in paragraph (n)(1) of this section, whether or not such land, structures, and facilities are operated as part of a transmission system or as part of a distribution system.

NOTE: Stations which change electricity from transmission to distribution voltage shall be classified as distribution stations.

(3) Where poles or towers support both transmission and distribution conductors, the poles, towers, anchors, guys, and rights-of-way shall be classified as transmission system. The conductors, cross-arms, braces, grounds, tie wire, and insulators shall be classified as transmission or distribution facilities, according to the purpose for which used.

(4) Where underground conduit contains both transmission and distribution conductors, the underground conduit and right-of-way shall be classified as distribution system. The conductors shall be classified as transmission or distribution facilities according to the purpose for which used.

(5) Land (other than rights-of-way) and structures used jointly for transmission and distribution purposes shall be classified as transmission or distribution according to the major use thereof.

(o) *Hydraulic production plant.* For purpose of this system of accounts hydraulic production plant is all land and land rights, structures and improvements used in connection with hydraulic power generation, reservoirs, dams and waterways, water wheels, turbines, generators, accessory electric equipment, roads, railroads, and bridges and structures and improvements used in connection with fish and wildlife, and recreation.

(p) *Nuclear fuel records required.* Each utility shall keep all the necessary records to support the entries to the various nuclear fuel plant accounts classified under "Assets and Other Debts," Utility Plant Accounts 120.1 through 120.5, inclusive; Account 518, Nuclear Fuel Expense; and Account 157, Nuclear Materials Held for Sale. These records shall be so kept as to readily furnish the basis of the computation of the net nuclear fuel costs.

§ 1767.17 Operating expense instructions.

(a) *Supervision and engineering.* The supervision and engineering includible in the operating expense accounts shall consist of the salary, employee pensions and benefits, social security and other payroll taxes, injuries and damages, and other expenses of superintendents, engineers, clerks, other employees, and consultants engaged in supervising and directing the operation and maintenance of each utility function. Whenever allocations are necessary in order to arrive at the amount to be included in any account, the method and basis of allocation shall be reflected by underlying records.

(1) Labor items:

(i) Special tests to determine efficiency of equipment operation;

(ii) Preparing or reviewing budgets, estimates, and drawings relating to operation or maintenance for departmental approval;

(iii) Preparing instructions for operations and maintenance activities;

(iv) Reviewing and analyzing operating results;

(v) Establishing organizational setup of departments and executing changes therein;

(vi) Formulating and reviewing routines of departments and executing changes therein;

(vii) General training and instruction of employees by supervisors whose pay is chargeable hereto. Specific instructions and training in a particular type of work is chargeable to the appropriate functional account (See paragraph (c)(19) of this section); and

(viii) Secretarial work for supervisory personnel, but not general clerical and stenographic work chargeable to other accounts.

(2) Expense items:

(i) Employee pensions and benefits;

(ii) Social security and other payroll taxes;

(iii) Injuries and damages;

(iv) Consultants' fees and expenses; and

(v) Meals, traveling, and incidental expenses.

(b) *Maintenance.* (1) The cost of maintenance chargeable to the various operating expense and clearing accounts includes labor, employee pensions and benefits, social security and other payroll taxes, injuries and damages, materials, overheads, and other expenses incurred in maintenance work. A list of work operations applicable generally to utility plant is included in this paragraph (b). Other work operations applicable to specific classes of plant are listed in functional maintenance expense accounts.

(2) Materials recovered in connection with the maintenance of property shall be credited to the same account to which the maintenance cost was charged.

(3) If the book cost of any property is carried in Account 102, Electric Plant Purchased or Sold, the cost of maintaining such property shall be charged to the accounts for maintenance of property of the same class and use, the book cost of which is carried in other electric plant in service accounts. Maintenance of property leased from others shall be treated as provided in paragraph (c) of this section.

(4) Items:

(i) Direct field supervision of maintenance;

(ii) Inspecting, testing, and reporting on condition of plant specifically to determine the need for repairs, replacements, rearrangements, and changes and inspecting and testing the adequacy of repairs which have been made;

(iii) Work performed specifically for the purpose of preventing failure, restoring serviceability or maintaining life of plant;

(iv) Rearranging and changing the location of plant not retired;

(v) Repairing for reuse materials recovered from plant;

(vi) Testing for, locating, and clearing trouble;