

**§ 367.28**

company, where applicable, to identify and classify the charge in terms of the system of accounts prescribed by the regulatory authorities to which it is subject. The information provided to associate public-utility companies must provide a summary of the accounts by service provided and showing the charges, classified as direct cost, indirect cost, and compensation for use of capital.

**§ 367.28 Methods of allocation.**

Indirect costs and compensation for use of capital must be allocated to projects in accordance with the service company's applicable and currently effective methods of allocation. Both direct and allocated indirect costs on projects must be assigned among those companies in the same manner. The cost accumulation system must identify the methods of allocation and the accounts to be charged. Companies must be notified in writing of any change in the methods of allocation.

**§ 367.29 Compensation for use of capital.**

A servicing transaction is deemed to be performed at no more than cost if the price of the service does not exceed a fair and equitable allocation of expenses plus reasonable compensation for necessary capital procured through the issuance of capital stock. Interest on borrowed capital and compensation for the use of capital must only represent a reasonable return on the amount of capital reasonably necessary for the performance of services or construction work for, or the sale of goods to, associate companies. The compensation may be estimated and must be computed monthly. The amount of compensation must be stated separately in each billing to the associate companies. An annual statement to support the amount of compensation for use of capital billed for the previous 12 months and how it was calculated must be supplied to each associate company at the end of the calendar year.

**§ 367.30 Cost accumulation system for associate companies.**

Service companies must maintain a detailed classification of service costs,

that permits costs to be identified with the functional processes of the associate companies served. To permit the classification, each service company must maintain a cost accumulation system, as described in Definitions § 367.1(a)(12), for accumulating reimbursable costs and charges to the associate companies served, and maintain time records for all service company employees in order to support the accounting allocation of all expenses assignable to the types of services performed and chargeable to the associate companies served. Service company employee records must permit a ready identification of the hours worked, account numbers charged, and other code designations that facilitate proper classification.

**Subpart C—Service Company Property Instructions**

**§ 367.50 Service company property to be recorded at cost.**

(a) All amounts included in the accounts for service company property must be stated at the cost incurred by the service company, except for property acquired by lease which qualifies as capital lease property under General Instructions in § 367.18, Criteria for classifying leases, and is recorded in Account 101.1, Property under capital leases (§ 367.1011).

(b) When the consideration given for property is other than cash, the value of the consideration must be determined on a cash basis (*See, however*, Definitions § 367.1(a)(11)). In the entry recording the transaction, the actual consideration must be described with sufficient particularity to identify it. The service company must be prepared to furnish the Commission the particulars of its determination of the cash value of the consideration, if other than cash.

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

(d) The service company property accounts must not include the cost or

other value of service company property contributed to the company. Contributions in the form of money or its equivalent toward the construction of property must be credited to accounts charged with the cost of such construction. Property constructed from contributions of cash or its equivalent must be shown as a reduction to gross property constructed when assembling cost data for posting to property ledgers of accounts. The accumulated gross costs of property must be recorded as a debit in the plant ledger of accounts along with the related amount of contributions concurrently recorded as a credit.

**§ 367.51 Components of construction.**

(a) For service companies, the cost of construction properly included in the service company property accounts must include, where applicable, the direct and overhead costs as listed and defined as follows:

(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 the work.

(2) Labor includes the pay and expenses of employees of the service company engaged in 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 that are distributed to construction through clearing accounts nor the pay and expenses included in other items in this section.

(3)(i) 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 service company's shop. In determining the cost of materials and supplies used for construction, proper allowance must 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.

(ii) 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, must not be charged to service company property accounts unless the correctness of the accounting is verified by current inventories. The cost must be charged to the appropriate operating expense or clearing accounts, according to the use of the items, or, if the items are consumed directly in construction work, the cost must 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 service company's own transportation equipment. (See paragraph (a)(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 paragraph (a)(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 associated net book cost, less the appraised or salvage value at time of release from the job, must be included in the cost of construction.

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

(7) Protection includes the cost of protecting the service company's property from fire or other casualties and