

expense, construction work in progress, or other appropriate accounts as they become payable.

(e) For a capital lease, for each period during the lease term, the amounts recorded for the asset and obligation must be reduced by an amount equal to the portion of each lease payment that would have been allocated to the reduction of the obligation, if the payment had been treated as a payment on an installment obligation (liability) and allocated between interest expense and a reduction of the obligation so as to produce a constant periodic rate of interest on the remaining balance.

§ 367.20 Depreciation accounting.

(a) *Method.* Service companies must use a method of depreciation that allocates in a systematic and rational manner the service value of depreciable property over the service life of the property.

(b) *Service lives.* Estimated useful service lives of depreciable property must be supported by objective evidence and analysis, including where appropriate engineering, economic, or other depreciation studies.

(c) *Rate.* Service companies must use percentage rates of depreciation that are based on a method of depreciation that allocates the service value of depreciable property over the service life of the property. Where composite depreciation rates are used, they must be based on the weighted average estimated useful service lives of the depreciable property comprising the composite group.

§ 367.22 Accounting for asset retirement obligations.

(a) An asset retirement obligation represents a liability for the legal obligation associated with the retirement of a tangible, long-lived asset that a service company is required to settle as a result of an existing or enacted law, statute, ordinance, or written or oral contract, or by legal construction of a contract under the doctrine of promissory estoppel. An asset retirement cost represents the amount capitalized when the liability is recognized for the long-lived asset that gives rise to the legal obligation. The amount recog-

nized for the liability and an associated asset retirement cost must be stated at the fair value of the asset retirement obligation in the period in which the obligation is incurred.

(b) The service company must initially record a liability for an asset retirement obligation in account 230, Asset retirement obligations (§367.2300), and charge the associated asset retirement costs to service company property (including account 101.1 in §367.1011) related to the property that gives rise to the legal obligation. The asset retirement cost must be depreciated over the useful life of the related asset that gives rise to the obligations. For periods subsequent to the initial recording of the asset retirement obligation, a service company must recognize the period to period changes of the asset retirement obligation that result from the passage of time due to the accretion of the liability and any subsequent measurement changes to the initial liability for the legal obligation recorded in account 230, Asset retirement obligations (§367.2300), as follows:

(1) The service company must record the accretion of the liability by debiting account 411.10, Accretion expense (§367.4118); and

(2) The service company must recognize any subsequent measurement changes of the liability initially recorded in account 230, Asset retirement obligations (§367.2300), for each specific asset retirement obligation as an adjustment of that liability in account 230 with the corresponding adjustment to service company property. The service company must on a timely basis monitor any measurement changes of the asset retirement obligations.

(c) Gains or losses resulting from the settlement of asset retirement obligations associated with service company property resulting from the difference between the amount of the liability for the asset retirement obligation included in account 230, Asset retirement obligations (§367.2300), and the actual amount paid to settle the obligation shall be accounted for as follows:

(1) Gains shall be credited to account 421, Miscellaneous income or loss (§367.4210), and;

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(2) Losses shall be charged to account 426.5, Other deductions (§ 367.4265).

(d) Separate subsidiary records must be maintained for each asset retirement obligation showing the initial liability and associated asset retirement cost, any incremental amounts of the liability incurred in subsequent reporting periods for additional layers of the original liability and related asset retirement cost, the accretion of the liability, the subsequent measurement changes to the asset retirement obligation, the depreciation and amortization of the asset retirement costs and related accumulated depreciation, and the settlement date and actual amount paid to settle the obligation. For purposes of analysis, a service company must maintain supporting documentation so as to be able to furnish accurately and expeditiously with respect to each asset retirement obligation the full details of the identity and nature of the legal obligation, the year incurred, the identity of the plant giving rise to the obligation, the full particulars relating to each component and supporting computations related to the measurement of the asset retirement obligation.

§ 367.23 Transactions with non-associate companies.

When a service or construction is performed for non-associate companies at an amount other than cost, the amount of revenues in excess or deficiency of the cost on servicing the non-associate companies must be charged to account 458.4, Excess or deficiency on servicing non-associate utility companies (§ 367.4584). A deficiency incurred in a project deemed beneficial to the associate companies may be charged to associate companies subject to disallowance by a State Commission or Federal Commission having jurisdiction over the rates or services of the associate companies. To the extent not charged, or if disallowed, the deficiency will be charged to account 458.4 (§ 367.4584). In computing charges to associate companies for any calendar year, any net credit in this account must be deducted from amounts reimbursable by associate companies as compensation for use of capital invested in the service company.

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§ 367.24 Construction and service contracts for other companies.

(a) Expenditures made in the performance of construction or service contracts, under which the service company undertakes projects to construct physical property for associate or non-associate companies must be recorded in Account 412, Cost and expenses of construction or other services (§ 367.4120). The service company must keep records pursuant to its cost allocation system indicating the cost of each contract or project, the amount of service costs allocated to the contracts, and the additional classification of expenditures relating to projects that will meet the accounting requirements of the company for which the work is performed.

(b) Account 412 (§ 367.4120) will include:

(1) The cost of materials, construction payrolls, outside services, and other expenses which are directly attributable to the performance of service or construction contracts for other companies.

(2) The cost of goods procured directly attributable to the performance of service or construction contracts for other companies.

(3) The related salaries, expense of officers and employees, pay of employees on the service company's regular staff specifically assigned to construction work, and other expenses of maintaining the service company's organization and equipment.

(4) The support services performed by the service company in connection with the procurement of goods for associate companies.

§ 367.25 Determination of service cost.

A service must be deemed at cost and fair allocation of costs requires an accurate accounting for the elements that makes up the aggregate expense of conducting the business of the service company. In the accounts prescribed in this part, the total amounts included in the expense accounts during any period plus the amount that appropriately may be added as compensation for the use of capital constitute cost during that period.