these regulations, OFP may prohibit the excessive use of natural gas or petroleum in a mixture with an alternate fuel as a primary energy source in a certifying powerplant.

(a) NEPA compliance. Except as provided in paragraph (c) of this section, where the owner or operator of a powerplant seeks to obtain an OFP prohibition order through the certification procedure, and did not hold either a proposed prohibition order under former section 301 of FUA or pending order under section 2 of ESSECA, it will be responsible for the costs of preparing any necessary Environmental Assessment (EA) or Environmental Impact Statement (EIS) arising from OFP’s obligation to comply with NEPA. The powerplant owner or operator shall enter into a contract with an independent party selected by OFP, who is qualified to conduct an environmental review and prepare an EA or EIS, as appropriate, and who does not have a financial or other interest in the outcome of the proceedings, under the supervision of OFP. The NEPA process must be completed and approved before OFP will issue a final prohibition order based on the certification.

(b) Environmental review procedure. Except as provided in paragraph (c) of this section, environmental documents, including the EA and EIS, where necessary, will be prepared utilizing the process set forth above. OFP, the powerplant owner or operator and the independent third party shall enter into an agreement for the owner or operator to engage and pay directly for the services of the qualified third party to prepare the necessary documents. The third party will execute an OFP prepared disclosure document stating that he does not have any conflict of interest, financial or otherwise, in the outcome of either the environmental process or the prohibition order proceeding. The agreement shall outline the responsibilities of each party and his relationship to the other two parties regarding the work to be done or supervised. OFP shall approve the information to be developed and supervise the gathering, analysis and presentation of the information. In addition, OFP will have the authority to approve and modify any statement, analysis, and conclusion contained in the third party prepared environmental documents.

(c) Financial hardship. Whenever the bona fide estimate of the costs associated with NEPA compliance, if borne by the powerplant owner or operator, would make the conversion financially infeasible, OFP may waive the requirement set forth in paragraphs (a) and (b) of this section and perform the necessary environmental review.

(Approved by the Office of Management and Budget under control number 1903–0077)

(47 FR 17046, Apr. 21, 1982)

APPENDIX I TO PART 504—PROCEDURES FOR THE COMPUTATION OF THE REAL COST OF CAPITAL

(a) The firm’s real after-tax weighted average marginal cost of capital (K) is computed with equation 1.

\[ K = \left( \frac{\hat{K}_d (1-t)}{1-\tau_d} - \text{INF} \right) + \left( \frac{P}{1-\tau_p} - \text{INF} \right) + \left( \frac{\hat{K}_e}{1-\tau_e} - \text{INF} \right) \]

\[ \hat{K} \]
The terms in equation 1 are defined as follows:

- $W_e$ = Fraction of existing capital structure which is debt.
- $W_p$ = Fraction of existing capital structure which is preferred equity.
- $W_m$ = Fraction of existing capital structure which is common equity and retained earnings.
- $R_d$ = Predicted nominal cost of long term debt expressed as a fraction.
- $R_p$ = Predicted nominal cost of preferred stock expressed as a fraction.
- $R_m$ = Predicted nominal cost of common stock expressed as a fraction.
- INF = Percentage change in the GNP implicit price deflator over the past 12 months expressed as a fraction.
- $f_e$ = Flotation cost of common stock expressed as a fraction.
- $f_p$ = Flotation cost of preferred stock expressed as a fraction.
- $l_e$ = Flotation cost of debt expressed as a fraction.
- $l_p$ = Flotation cost of preferred stock expressed as a fraction.
- $t_e$ = Marginal federal income tax rate for the current year.

(b) Information on parameters used in Equation 1. (1) The parameters used in equation 1 will be the best practicable estimates. They will be obtained from the firm, accepted rating services (e.g., Standard & Poors, Moody’s), government publications, accepted financial publications, annual financial reports and statements of firms, and investment bankers.

(2) The predicted nominal cost of debt ($R_d$) may be estimated by determining the current average yield on newly issued bonds—industrial or utility as appropriate—which have the same rating as the firm’s most recent debt issue.

(3) The predicted nominal cost of preferred stock ($R_p$) may be estimated by determining the current average yield on newly issued industrial bonds expressed as a fraction.

(4)(a) The predicted nominal cost of common stock ($R_m$) is computed with equation 2.

$$\text{Eq. 2: } R_m = R_e + B \times R_m$$

where:

- $R_e$ = The risk free interest rate—the average of the most recent auction rates of U.S. Government 13-week Treasury Bills.
- $B$ = The “beta” coefficient—the relationship between the excess return on common stock and the excess return on the S&P 500 composite index, and
- $R_m$ = The mean excess return on the S&P 500 composite index—the mean of the difference between the return on the S&P 500 composite index and the risk free interest rate for the years 1926-1976 as computed by Driscoll and Sinquefield.

(b) The “beta” coefficient is computed with regression analysis techniques. The regression equation is Equation 3.

$$R_t = A + B (R_{PRCC} - R_{PRCC_{t-1}} + (DIVRATE/12))$$

where

- $R_t$ = The risk free interest rate in month $t$—the average of the yields on 13-week treasury bills auctioned in month $t$.
- $A$ = A constant which should not be significantly different than zero.
- $R_{PRCC} = PRCC_{t-1} + (DIVRATE/12) / PRCC_{t-1}$
- $R_{t} = V_{sp,t}-V_{sp,t-1}+D_{sp,t}$, and
- $e_t$ = The error in month $t$.
- $PRCC_{t-1}$ = The sum of the dividends paid in the fiscal year which contain month $t$.
- $V_{sp,t}$ = The market value of “one share” of the S&P 500 composite index at the end of month $t$.
- $D_{sp,t}$ = The estimated monthly income received from holding “one share” of the S&P 500 in month $t$.

The regression analysis is done with sixty months of data. The first month ($t=1$) is sixty months before the month in which the firm’s current fiscal year started. The last month ($t=60$) is the last month of the past fiscal year.

(5) Where the parameters specified above are not obtainable, alternate parameters that closely correspond to those above may be used. This may include substituting a bond yield for nominal cost of preferred stock where the former is not available. Where the capital structure does not consist of any debt, preferred equity, or common equity, an alternate methodology to predict the firm’s real after-tax marginal cost of capital may be used. Example of using alternate parameters that closely correspond to those above are:

(A) In the case of industrials, who do not typically issue preferred stock, the predicted nominal cost of preferred stock ($R_p$) can be estimated by determining the current average yield on newly issued industrial bonds which have the same rating as the firm’s most recent debt issue.

(B) If necessary, the following assumptions can be made to determine the nominal cost of debt or preferred stock and their flotation costs.

(i) Where a company issued privately placed debt that was not rated, the rating, applied to preferred stock could be used to...
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determine the cost of debt and its flotation cost.

(ii) Where a company issued privately placed preferred stock that was not rated, the rating applied to debt could be used to determine the cost of preferred stock and its flotation costs.

(iii) In the case where all issues were privately placed, the current average yield on all newly issued debt or preferred could be used to determine the cost of debt or preferred respectively, and an average flotation cost, for debt or preferred, could be used.

(C) Evidence Requirements. Copies of this calculation with notations as to the source of the data must be submitted.

Footnotes


(2) As an option, \( R_t \) can be developed with the following equation:

\[
R_t = \frac{365D_t}{360 - ND_t} \times \frac{1}{12}
\]

where:

- \( D_t \) = The average annual yield on three month U.S. Treasury bills reported in the Survey of Current Business auctioned in month \( t \)—which is reported using the bank discount method.
- \( N \) = Number of days to maturity.


APPENDIX II TO PART 504—FUEL PRICE COMPUTATION

(a) Introduction. This appendix provides the equations and parameters needed to specify the price of the delivered fuels to be used in the cost calculations associated with parts 503 and 504 of these regulations. The delivered price of the fuel to be used to calculate delivered fuel expenses must reflect (1) the price of each fuel at the time of the petition, and (2) the effects of future real price increases for each fuel. The delivered price of an alternate fuel used to calculate delivered fuel expenses must reflect the petitioner’s delivered price of the alternate fuel and the effects of real increases in the price of that alternate fuel. Paragraphs (b), (c) and (d) below provide the procedure to: (1) Calculate fuel price and inflation indices; (2) account for projected real increases in fuel prices when planning to burn one or more than one fuel; and (3) account for projected real increases in the price of the alternate fuel. Table II-1 of this appendix (See paragraph (b)) contains example fuel price and inflation indices based on the latest data appearing in the Energy Information Administration’s (EIA) Annual Energy Outlook (AEO).

The fuel price and inflation indices will change yearly with the publication of the AEO. Revisions shall become effective after final publication. However, the relevant set of parameters for a specific petition for exemption will be the set in effect at the time the petition is submitted or the set in effect at the time a decision is rendered, whichever is more favorable to the petitioner.

(b) Computation of Fuel Price and Inflation Indices. (1) The Petitioner is responsible for computing the annual fuel price and inflation indices by using Equation II–1 and Equation II–2, respectively. The petitioner may compute the fuel price index specified in Equation II–1 or use his own price index. However, if he uses his own price index, the source or the derivation of the index must be fully documented and be contained in the evidential summary.

\[
\text{Eq II–1:} \quad PX_i = \frac{P_i}{P_o}
\]

where:

- \( PX \) = The fuel price index for each fuel in year \( i \).
- \( P_i \) = Price of fuel in year \( i \).
- \( P_o \) = Price of fuel in base year.

\[
\text{Eq II–2:} \quad IX_i = \frac{GX_i}{GX_o}
\]

where:

- \( IX \) = The inflation index in year \( i \).
- \( GX \) = The NIPA GNP price deflator for year \( i \).
- \( GX_o \) = The NIPA GNP price deflator for the base year.

(2) The parameters to be used in EQ II-1 are the Base Case fuel price projections found in EIA’s current AEO.

(3) When computing annual inflation indices, the petitioner is to use the Base Case National Macroeconomic Indicators (NIPA GNP Price Deflator) contained in EIA’s current AEO. If necessary, the petitioner must rebase the projection to the same year used for the fuel price projections. For example, in 1989 AEO projects the price deflator in 1982 dollars; this must be rebased to the year in which the petition is filed. The methodology used to rebase the inflation indices must follow standard statistical procedures and must be fully documented within the petition. This index will remain frozen at the last year of the AEO’s projection for the remainder of the unit’s useful life.

(4) Table II–1 is provided as an example of the application of equations II–1 and II–2. This table contains annual fuel price indices for distillate oil, residual oil, natural gas,