CURRENT RETURN ON CWIP
VERSUS AFUDC
REGULATORY SURVEY RESULTS
March 2006

The Wisconsin Commission is relooking at its current practice for allowing a current return on construction work in progress (CWIP). We would appreciate it if you or someone else from your agency could respond to the following questions.

AGENCY	RESPONSE
Question #1: Does your agency allow a current return on CWIP?	
AL	CWIP is included in Rate Base while AFUDC income is included as a deduction from interest expense and a credit to Other Income. Theoretically, the two items nearly offset one another.
CA	Regulated water utilities receive a current return on CWIP of projects that are one-year or less in duration. For CWIP of greater than one year, the utility earns AFUDC (this long-term CWIP and associated AFUDC are not part of rate base until in-service).[i]
FL	See attached rulemaking.[ii]
ID	CWIP is not included in rate base. We use an historical test year or a 6 month historical and 6 month forecast where the forecast is know before the hearing. We also have known and measurable changes that can include plant provided it is an unusual or extensive addition such as a water treatment plant or generating facility. The adjustment must also reflect additional revenues and reduced expenses (maintenance) associated with the addition.
IL	No – except for certain conditions noted below.
KY	The Kentucky Commission routinely includes CWIP in the determination of the utility's rate base. We normally determine the revenue requirements based on capitalization rather than rate base, but are required by statute to consider the return on rate base approach as well. While we generally determine the revenue requirements using an overall rate of return on capitalization, the equivalent rate of return on rate base is usually stated in the rate Order. Therefore, we do allow a current return on CWIP.
MI	Yes, but it is offset by inclusion of the AFUDC in operating income.
MN	Minnesota generally includes CWIP in the rate base where it will earn the allowed rate of return, but the return is offset by bringing the related AFUDC earnings above the line and capitalized. There have been isolated circumstances where a current return was allowed in cases where the investment was so substantial as to potentially impair the financial integrity of the utility while the project was under construction. Also, Xcel's Emissions Reduction Program is allowed to pass return on CWIP through the special rate rider.
MT	Montana does not allow CWIP in rates. It has been a very long time since AFUDC has been an issue, we just have not been seeing utility construction.
NV	A current return on CWIP is dependent on if the project is designated as a critical facility or not. If not, the utility will accrue AFUDC. I will mention that Nevada will allow CWIP into rate base if the utility is suffering from financial stress. But this provision has had limited application.
NH	CWIP is prohibited from inclusion in rates until the asset is completed and providing service to customers. RSA 378:30-a.
NY	Yes.

AGENCY	RESPONSE
NC	The allowance of CWIP in rate base is governed by the provisions of North Carolina General Statute 62-133(b)(1), which states, in relevant part, "[R]easonable and prudent expenditures for construction work in progress … may be included [in rate base], to the extent the [North Carolina Utilities] Commission considers such inclusion in the public interest and necessary to the financial stability of the utility in question[.]" No CWIP has been included in rate base of any electric utility regulated by the Commission since at least the early 1990s. No natural gas local distribution company (LDC) has requested that CWIP be included as a component of rate base since at least the late 1980s.
ND	We typically use a projected test year where plant-in-service includes long-term CWIP projects expected to be completed during the test year. Short-term CWIP not eligible for AFUDC is also included in rate base.
OH	No return on CWIP used in Ohio. There has never been a situation where an Ohio company recovered the cost of constructing an asset before it was placed in service.
OR	No, except for water utilities. This is mandated by Oregon statute. ORS 757.355 states:[iii] If the utility is able to demonstrate that the plant will be in service by the effective date of revised rates, Staff will allow the plant in rates. Additionally, many utilities are using a future test year and if a utility has a major project coming online shortly after rates are scheduled to go into effect, then the Commission may allow the company to track the investment into rates. As shown above, we have a "used and useful" law that doesn't allow any investment into rates that is not being used. For water utilities, we will allow CWIP during a rate review if the utility can demonstrate that the plant will be in service within a reasonable amount of time after approval of its rates, approximately 6 months.
SC	This is looked at on a case by case basis but normally yes.
TN	Yes.
VA	Yes.
VT	During a rate proceeding, a return is allowed for that portion of CWIP that will be placed into service during the "rate year" and is accomplished by including that portion of CWIP in the rate base. Those amounts that are not be placed into service (and which are not included in rate base) during the rate year and where the construction period is estimated to be greater than one year accrue an AFUDC charge that is calculated based on the FERC formula that includes short and long term cost of capital.
WA	No, not recently. It had been included on a case-by-case basis in rate base sometimes in some 1980's cases during the heavy nuclear/coal construction and high interest rate periods as a means to provide additional cash flow. In addition, we have recently "pro formed" large transmission/production plant that would be in service in the rate year into rate base, with savings offsets.
WI	Generally, the Commission's current practice has been to allow a current return on 50 percent of CWIP. For major projects, a current return on 100 percent of CWIP has sometimes been allowed.
WY	No. We do, however, update Plant in Service to incorporate plant that is expected to be in service at the time rates are to go into effect. This is an adjustment that is made to recognize as much plant as possible, without going to a future test year.
TCEQ	Yes.

AGENCY	RESPONSE
Question #2: If yes, please summarize the policy followed by your agency for allowing a current return on CWIP. Does this policy consider specific criteria that is looked at for determining what portion of CWIP receives a current return? Please explain.	
AL	100% is included in ratebase. Years ago, the Alabama Courts held that a utility should earn a return on assets devoted to public service and any assets that would soon be devoted to public service. In the rate case environment back then, due to prolonged periods between decisions, the CWIP inclusion allowed a "forward look". In 1982, the Commission adopted a Rate Stabilization and Equalization (RSE) rate formula. In this formula, CWIP is included in Rate Base while AFUDC income is included as a deduction from interest expense and a credit to Other Income.
CA	CWIP for projects that are one year or less in duration are included in rate base, and therefore earn the regular rate of return that all other rate base earns.
FL	See response to question #1.
ID	Not applicable.
IL	Paragraph (d) of the Illinois statute prohibits an amount for CWIP in rate base. Paragraphs (e) and (f) provide exceptions for plant place into service within 12 months of the date of rate determination and for an investment in pollution control devices. The pertinent paragraphs of Section 9-214 are cut and pasted below.[iv]
KY	There is no formal policy regarding concerning the inclusion of a current return on CWIP. The utility projects recorded in CWIP are examined to determine that the projects should be included (relates to the utility's provision of regulated service in Kentucky). The only time I am aware that the Kentucky Commission did not include 100% of the recorded CWIP was when a portion of the generating plant being constructed had been determined as not needed and recovery of that portion was disallowed.
MI	Because an AFUDC offset is included in operating income, large projects for which AFUDC is capitalized do not receive a current return in rates.
MN	Minnesota historically adheres to the rate base/AFUDC offset/capitalized AFUDC treatment due to "used and useful" considerations. Allowing a current recovery would be the exception on a case-by-case basis as noted in 1. above. However, to the extent that the overall rate of return allowed on the rate base exceeds the AFUDC offset, companies do earn a current return.
MT	See response to question #1.
NV	If the electric facility is designated as a critical facility the Commission may allow certain benefits. For example, the inclusion of CWIP in rate base and/or an enhanced return on equity. No specific criteria exist. Generally, the utility must demonstrate some additional benefit for the facility or its timing than would other wise be achieved. For example, Sierra Pacific Power Company was allowed to place its recently approved 514 MW combined cycle facility CWIP into rate base and earn an enhanced return on equity while it is CWIP and when it goes into operation for the expected life of the plant. The rate was set at 1.5% equity adder.
NH	Not applicable.
NY	The NYPSC includes in rate base, CWIP that is minor project (minor is defined in utility accounting policies by expenditure limits for individual projects) construction, usually of a recurring nature. Once the expenditure limit is exceeded for a project, it is transferred to the AFUDC bearing portion of CWIP.
NC	Please see response to Question No. 1.

AGENCY	RESPONSE
ND	Our policy is to try and match rates with the cost of providing service. The amount of long-term CWIP included in rate base depends on when the projects are expected to be placed into service. If half-year convention is used in a calendar year then anything placed into service after June would receive a 50% weighting for rate base and anything prior to July would receive 100% rate base treatment.
OH	See response to question #1.
OR	See statute section referenced in question #1.
SC	The Commission normally requires that AFUDC be suspended on the projects comprising CWIP at the level (dollar amount) included in rate base. The theory is that the total cost of such projects, and therefore the rate base, will be lower because the utility stops capitalizing interest on the amount included in rate base. However, this is looked at on a case by case basis and the Commission could treat it differently based upon the evidence of any particular case.
TN	No specific criteria, normally accepted without inquiry, unless there's is some case where the CWIP is actually in operation, but has not been closed to Plant in Service.
VA	The end of test year CWIP balance is included in rate base. In a rate proceeding, all rate base components (along with revenues and rate base-sensitive expenses) are updated to a more current historical period.
VT	In determining that portion of CWIP that is included in rate base, the Department/Board generally will include those amounts that will go into service during the rate year. This means the entire project must be complete and cut-over into service--generally, partial amounts of projects are not includable. Projects and their related CWIP charges that extend beyond one year, are generally not included in rate base but would accrue an AFUDC charge. The criteria for inclusion in the rate base is: the asset must be placed into service, be used and useful, the cost must be reasonable and the amounts must be known and measurable.
WA	No current policy, but inclusion is an optional way of providing additional cash flow to the utility if unusual circumstances warrant. see Order language from 1982 case and a 1981 Order.[v]
WI	To allow a test year current return on the average CWIP balance, the Commission makes an adjustment to the return on net investment rate base. In determining whether it is reasonable to allow a current return on CWIP, the Commission considers the utility's financing and cash flow requirements in the test year and the forecasted amount of construction activity.
WY	Not applicable.
TCEQ	Our analysis is based on the Texas Commission on Environmental Quality (TCEQ's) rule listed below: 30 Texas Administrative Code Chapter 291.31(c)(3) (B) Construction work in progress. Under ordinary circumstances, the rate base consists only of those items that are used and useful in providing service to the public. Under exceptional circumstances, the commission may include construction work in progress in rate base to the extent that the utility has proven that: (1) the inclusion is necessary to the financial integrity of the utility; and (2) major projects under construction have been efficiently and prudently planned and managed. However, construction work in progress may not be allowed for any portion of a major project that the utility has failed to prove was efficiently and prudently planned and managed.

AGENCY	RESPONSE
Question #3: If your agency allows a current return on some or all CWIP, what is the rate based on (e.g., weighted cost of capital, long-term debt rate, or some other rate)?	
AL	The weighted cost of capital.
CA	As part of rate base, the CWIP of one-year or less earns the rate of return. The rate of return is the weighted cost of capital, which may include weighted cost of long-term debt, preferred stock, and common equity (depending on the capital structure of the utility).
FL	See response to question #1.
ID	Not applicable.
IL	Same rate as the rest of rate base.
KY	As mentioned previously, the Kentucky Commission generally determines the revenue requirement using the overall rate of return on capitalization, but will state the equivalent rate of return on rate base. The overall rate of return on capitalization is the weighted average cost of capital.
MI	Weighted cost of capital
MN	CWIP in rate base earns the allowed rate of return. The AFUDC earnings are generally based on the FERC formula.
MT	See response to question #1.
NV	If in rate base it is normally the authorized rate of return. However, as the previous mentioned example indicates it could be greater.
NH	Not applicable.
NY	Under the NYPSC's ratemaking, the portion of CWIP included in rate base receives the allowed overall rate of return reflected in the approved revenue requirement.
NC	If CWIP is included in rate base, it is allowed to earn the weighted overall rate of return approved by the Commission in that case, which is determined using a weighted cost of capital approach.
ND	Cost of capital.
OH	See response to question #1.
OR	Not applicable.
SC	The overall cost of capital.
TN	Weighted cost of capital.
VA	The overall weighted cost of capital is applied to all rate base components.
VT	When CWIP is includable in rate base the rate is based on the company's authorized return/weighted average cost of capital. When a CWIP project is expected to take longer than one year, an AFUDC rate is used that is calculated in accordance with the FERC formula in the Uniform System of Accounts. When a CWIP project is not expected to take longer than one year, no AFUDC is applied.
WA	Back in the 80's certain CWIP was included in rate base and the WACC applied.
WI	The rate used by the PSCW is generally determined by the utility’s weighted cost of capital as adjusted for the ratio of utility net investment rate base plus CWIP to capital applicable to utility operations plus deferred investment tax credit.
WY	Not applicable.
TCEQ	Weighted cost of capital

AGENCY	RESPONSE
Question #4: In the last rate proceeding or whenever a current return on CWIP was last allowed, on average what percentage of CWIP received a current return?	
AL	100%.
CA	The percentage of CWIP receiving a current return would depend on the company, but on average, I would say that the majority of CWIP receives a current return as being part of rate base.
FL	See response to question #1.
ID	Not applicable.
IL	See answer to question #2.
KY	The Kentucky Commission allowed 100% of the total Kentucky jurisdictional amount in rate base and allowed a current return.
MI	In the Consumers Energy Company natural gas rate case no. U-14547, CWIP of $34 million was included in rate base, with an AFUDC offset of $146,000. Given a pretax overall rate of return of 8.85%, approximately 95% of CWIP earned a return.
MN	Generally 100% earns current rate base treatment, but AFUDC is capitalized and the AFUDC earnings are brought above the line.
MT	See response to question #1.
NV	CWIP included into rate base is limited to specific projects not the overall CWIP balance. Actual inclusion has not happened for some time. It was last allowed in a 1990's water case. The purpose was to minimize rate shock and to help with the financing, as the plant would double rate base. The CWIP was a water treatment plant caused by the safe drinking water act.
NH	Not applicable.
NY	The percentage of CWIP included in rate base (and receiving a current return) varies by utility and industry. For example, in the rate filing of Central Hudson E&G currently before the NYPSC, the company's historic year average CWIP in rate base was $46 Million and the AFUDC bearing CWIP not in rate base was $13 Million. In the recently decided Long Island Water Corporation rate case, the company's historic year average CWIP in rate base was $1.3 Million and the AFUDC bearing CWIP not in rate base was $2.4 Million.
NC	The last general rate case order to allow CWIP in rate base for any of the three major electric utilities regulated by the Commission (CP&L, Duke Power, VEPCO) was issued in CP&L's 1984 general rate case. In this order, the Commission allowed CP&L to include approximately 52% of its allocated North Carolina retail CWIP in rate base.
ND	It would vary depending to a large degree on when big projects were expected to be completed during the test year.
OH	See response to question #1.
OR	Not applicable.
SC	100% unless a CWIP project is disallowed for some reason.
TN	100%
VA	The full CWIP balance is included in rate base.
VT	Approximately 30-40%.
WA	It was limited to certain large projects only, like a single nuclear facility (100% of that facility's CWIP). Don't know the percent of total CWIP off hand since these were 1980's cases.
WI	In a recent rate case for a major energy utility, approximately 85-90 percent of CWIP earned a current return.

AGENCY	RESPONSE
WY	Not applicable.
TCEQ	TCEQ does not track rate applications with CWIP which received return.
Question #5: How is AFUDC computed by your agency?	
AL	FERC instructions.
CA	AFUDC (which is earned on CWIP of projects greater than one-year) is based on the 90-day commercial paper rate. This CWIP of greater than one-year and the associated AFUDC are not included in rate base until the asset goes into service.
FL	See response to question #1.
ID	The FERC formula is primarily utilized. It reflects the current capital structure, current cost of debt, current cost of preferred (if any). However, the Cost of Equity is the last authorized by the Commission (primary jurisdiction or weighted for multi-jurisdictional utilities). It is basically a weighted cost of capital primarily using current figures (except equity).
IL	In accordance with the FERC rules within the USOA
KY	The Kentucky Commission follows the approach outlined in the FERC Uniform System of Accounts.
MI	AFUDC applies to those projects of electric and gas utilities which are expected to be under on-site construction for a period of more than 6 months and which have a total estimated cost of at least $50,000.
MN	CWIP in rate base times AFUDC rate.
MT	See response to question #1.
NV	AFUDC is computed using FERC's formula. However, it is capped at the authorized rate of return.
NH	It is to be charged each month upon the balance at the beginning of the month in Unfinished Contruction. It cannot extend past the period when the property becomes ready for service. If construction is suspended, interest charges may be capitalized only for six months thereafter, unless specifically permitted by the Commission. Where only a portion of a project becomes ready for service or is placed in operation, that portion may be placed in rate base and AFUDC accrual must cease.
NY	Generally, using actual weighted cost of capital with actual debt and preferred stock rates and NYPSC allowed equity return decided in the utility's last rate filing. Specifically for E&G, the NYPSC has adopted the FERC methodology included in FERC E&G USOA's. For the other industries (telephone, water and steam), there are NYPSC accounting technical releases that prescribe the AFUDC calculation method. See attached pdf files.
NC	AFUDC is generally calculated by the electric utilities in accordance with a Commission order issued in 1977. The approach for the natural gas industry is similar to that for the electrics. The utilities' calculations are subject to Commission review. The 1977 order set forth a formula to calculate the maximum AFUDC rate allowable. The rate is calculated semiannually, and compounding of interest is permitted no more frequently than semiannually. The electrics and both LDCs subject to Commission ratemaking authority accrue AFUDC monthly based on the balance of the project from the month of the first expenditure until the project is completed. The LDCs do not accrue AFUDC on certain types of projects.
ND	We typically have accepted the FERC calculation. However, there are times when you should deviate from it. Since the FERC calculation assumes short-term debt will be used first to finance CWIP, refusal or reluctance by a company to obtain low cost short-term debt may be a reason to develop a theoretical rate. On the other hand, if the overall capital structure includes short-term debt it would seem inappropriate for consumers to benefit both ways.

AGENCY	RESPONSE
OH	The AFUDC calculation follows the FERC formula. In the case of telephone companies, I believe that the FCC USOA provides for an interest during construction (IDC) embedded cost of interest calculation, without an equity component. All costs of construction (including the carrying charges) are eligible for rate base inclusion after the asset is placed in service.
OR	Staff uses the FERC calculation (18 CFR Ch. 1, Pt. 101).
SC	The FERC method is typically used.
TN	Normally, adopt company policy consistent with IRS regs.
VA	As stated above, the accrual of AFUDC was discontinued some time ago. However, there have been limited cases where the Commission has allowed the accrual of interest during construction (IDC) on non-revenue producing plant. Examples include a gas pipeline and the construction of a start up gas company. Virginia passed legislation in 2005 that provides for the building of a coal generation plant in southwest Virginia that will be dedicated to the provision of default service. The law specifically provides for the recovery of AFUDC. Currently, a coalition of Virginia utilities is assessing the feasability of constructing such a facility.
VT	See number 1 and number 3 above.
WA	Utilities follow the guidance in the FERC USOA, and it compounded annually.
WI	In computing AFUDC, due to the difficulty in associating a specific source of funds with a specific project, because of the many and varied sources and uses of funds, the capitalization rate used by the PSCW is generally determined by the utility's weighted cost of capital as adjusted for the ratio of utility net investment rate base plus CWIP to capital applicable to utility operations plus deferred investment tax credit. This is applied to the average funds invested in construction not earning a current return.
WY	Pretty much along the lines of the FERC formula in the USOA.
TCEQ	Interest is not capitalized as AFUDC. It is placed into ratebase as CWIP and receives a weighted cost of capital rate of return.
Question #6: What rate is used in computing AFUDC?	
AL	FERC instructions.
CA	Same as answer 6.
FL	See response to question #1.
ID	See #5.
IL	In accordance with the FERC rules within the USOA.
KY	Again, the FERC approach is followed. I believe the AFUDC rate reflects the utility's actual cost of debt and either the utility's achieved rate of return on common equity or the last authorized rate of return on common equity (could not locate the information to verify this).
MI	Weighted cost of capital.
MN	Generally, the FERC AFUDC formula.
MT	See response to question #1.
NV	Please refer to number 5.
NH	"A reasonable rate upon the utility's own funds". Most recently this has been the WACC.
NY	Please see response to question #5

AGENCY	RESPONSE
NC	Under the terms of the 1977 order, the rate is a weighted average overall cost of capital rate, with short-term debt assigned 100% to CWIP. Additionally, income tax savings associated with the debt component are deferred. The utilities may use actual balances at the beginning of each period as inputs into the calculation, or may use estimated balances, subject to true-up if the actual rate exceeds the estimated rate by more than 0.25%. Since only approximately 5% of Virginia Electric and Power Company's business is located in North Carolina, it is required to use the AFUDC formula prescribed by the Virginia State Corporation Commission. For one of the LDCs, the AFUDC rate is the overall rate of return (with consideration for the deferred taxes on the interest component, as described for the electrics below.) from the rate case. Pursuant to a 1989 rate case order, the other LDC determines its AFUDC monthly by apportioning the amount of short-term debt included in the AFUDC rate formula based on the balance of CWIP.
ND	FERC method is used for the most part.
OH	Carrying charges accrue on utility assets while under construction. The carrying charge is based on the weighted cost of capital that includes an equity component.
OR	See response to question #5.
SC	The rate used in the FERC method is typically used.
TN	Normally, adopt company policy consistent with IRS regs.
VA	No rate is currently used.
VT	The current rates would average somewhere around 9% and somewhat below their weighted average cost of capital due to the inclusion of short-term debt.
WA	I've found it has differed from utility to utility. The Commission has prior orders prescribing the use of the rate of return last granted, but in other cases, the FERC formula is used.
WI	See response to #5.
WY	See response to #5.
TCEQ	Not applicable.

[i] Attached Decisions:

Decision 03-09-022 primarily discusses use of the 90-day commercial paper rate for AFUDC and the fact that this is used on longer term projects.

Decision 00-12-051 primarily discusses the inclusion of CWIP in rate base.

[ii] **25-6.0141 Allowance For Funds Used During Construction.**

(1) Construction work in progress (CWIP) or nuclear fuel in process (NFIP) not under a lease agreement that is not included in rate base may accrue allowance for funds used during construction (AFUDC), under the following conditions:

(a) Eligible projects. The following projects may be included in CWIP or NFIP and accrue AFUDC:

1. Projects that involve gross additions to plant in excess of 0.5 percent of the sum of the total balance in Account 101 - Electric Plant in Service, and Account 106, Completed Construction not Classified, at the time the project commences and

a. Are expected to be completed in excess of one year after commencement of construction, or

b. Were originally expected to be completed in one year or less and are suspended for six months or more, or are not ready for service after one year.

(b) Ineligible projects. The following projects may be included in CWIP or NFIP, but may not accrue AFUDC:

1. Projects, or portions thereof, that do not exceed the level of CWIP or NFIP included in rate base in the utility's last rate case.

2. Projects where gross additions to plant are less than 0.5 percent of the sum of the total balance in Account 101 - Electric Plant in Service, and Account 106 - Completed Construction not Classified, at the time the project commences.

3. Projects expected to be completed in less than one year after commencement of construction.

4. Property that has been classified as Property Held for Future Use.

(c) Unless otherwise authorized by the Commission, the following projects may not be included in CWIP or NFIP, nor accrue AFUDC:

1. Projects that are reimbursable by another party.

2. Projects that have been cancelled.

3. Purchases of assets which are ready for service when acquired.

4. Portions of projects providing service during the construction period.

(d) Other conditions. Accrual of AFUDC is subject to the following conditions:

1. Accrual of AFUDC is not to be reversed when a project originally expected to be completed in excess of one year is completed in one year or less;

2. AFUDC may not be accrued retroactively if a project expected to be completed in one year or less is subsequently suspended for six months, or is not ready for service after one year;

3. When a project is completed and ready for service, it shall be immediately transferred to the appropriate plant account(s) or Account 106, Completed Construction Not Classified, and may no longer accrue AFUDC;

4. Where a work order covers the construction of more than one property unit, the AFUDC accrual shall cease on the costs related to each unit when that unit reaches an in-service status;

5. When the construction activities for an ongoing project are expected to be suspended for a period exceeding six (6) months, the utility shall notify the Commission of the suspension and the reason(s) for the suspension, and shall submit a proposed accounting treatment for the suspended project; and

6. When the construction activities for a suspended project are resumed, the previously accumulated costs of the project may not accrue AFUDC if such costs have been included in rate base for ratemaking purposes. However, the accrual of AFUDC may be resumed when the previously accumulated costs are no longer included in rate base for ratemaking purposes.

(e) Subaccounts. Account 107, Construction Work in Progress, and Account 120.1, Nuclear Fuel in Process of Refinement, Conversion, Enrichment and Fabrication, shall be subdivided so as to segregate the cost of construction projects that are eligible for AFUDC from the cost of construction projects that are ineligible for AFUDC.

(f) Prior to the commencement of construction on a project, a utility may file a petition to seek approval to include an individual project in rate base that would otherwise qualify for AFUDC treatment per Section (1)(a).

(g) On a prospective basis, the Commission, upon its own motion, may determine that the potential impact on rates may require the exclusion of an amount of CWIP from a utility's rate base that does not qualify for AFUDC treatment per Section (1)(a) and to allow the utility to accrue AFUDC on that excluded amount.

(2) The applicable AFUDC rate shall be determined as follows:

(a) The most recent 13-month average embedded cost of capital, except as noted below, shall be derived using all sources of capital and adjusted using adjustments consistent with those used by the Commission in the utility's last rate case.

(b) The cost rates for the components in the capital structure shall be the midpoint of the last allowed return on common equity, the most recent 13-month average cost of short term debt and customer deposits and a zero cost rate for deferred taxes and all investment tax credits. The cost of long term debt and preferred stock shall be based on end of period cost. The annual percentage rate shall be calculated to two decimal places.

(3) Discounted monthly AFUDC rate. A discounted monthly AFUDC rate, calculated to six decimal places, shall be employed to insure that the annual AFUDC charged does not exceed authorized levels.

(a) The formula used to discount the annual AFUDC rate to reflect monthly compounding is as follows:

$M = [(1 + A/100)1/12 - 1] \times 100$

Where:

M = discounted monthly AFUDC rate

A = Annual AFUDC rate

(b) The monthly AFUDC rate, carried out to six decimal places, shall be applied to the average monthly balance of eligible CWIP and NFIP that is not included in rate base.

(4) The following schedules shall be filed with each petition for a change in AFUDC rate:

(a) Schedule A. A schedule showing the capital structure, cost rates and weighted average cost of capital that are the basis for the AFUDC rate in subsection (2).

(b) Schedule B. A schedule showing capital structure adjustments including the unadjusted capital structure, reconciling adjustments and adjusted capital structure that are the basis for the AFUDC rate in subsection (2).

(c) Schedule C. A schedule showing the calculation of the monthly AFUDC rate using the methodology set out in this Rule.

(5) No utility may charge or change its AFUDC rate without prior Commission approval. The new AFUDC rate shall be effective the month following the end of the 12-month period used to establish that rate and may not be retroactively applied to a previous fiscal year unless authorized by the Commission.

(6) Each utility charging AFUDC shall include in its December Earnings Surveillance Report to the Commission Schedules A and B identified in subsection (4) of this Rule, as well as disclosure of the AFUDC rate it is currently charging.

(7) The Commission may, on its own motion, initiate a proceeding to revise a utility's AFUDC rate.

(8) Each utility shall include in its Forecasted Surveillance Report a schedule of individual projects that commence during that forecasted period and are estimated to equal or exceed a gross cost of $10,000,000. The schedule shall include the following minimum information:

(a) Description of the project.

(b) Estimated total cost of the project.

(c) Estimated construction commencement date.

(d) Estimated in-service date.

(9) The provisions of this rule are effective January 1, 1996 and shall be implemented by all electric utilities no later than January 1, 1999, or the utility's next rate proceeding, whichever occurs first.

Specific Authority 350.127(2), 366.05(1) FS. Law Implemented 350.115, 366.06(1), 366.06(2), 366.04(2)(a), 366.04(2)(f), 366.08 FS. History-New 8-11-86, Amended 11-13-86, 12-7-87, 1-7-97.

[iii] **757.355 Costs of property not presently providing utility service excluded from rate base; exception.** (1) Except as provided in subsection (2) of this section, a public utility may not, directly or indirectly, by any device, charge, demand, collect or receive from any customer rates that include the costs of construction, building, installation or real or personal property not presently used for providing utility service to the customer.

(2) The Public Utility Commission may allow rates for a water utility that include the costs of a specific capital improvement if the water utility is required to use the additional revenues solely for the purpose of completing the capital improvement. [1979 c.3 §2; 2003 c.202 §2]

[iv] (220 ILCS 5/9-214) (from Ch. 111 2/3, par. 9-214)

Sec. 9-214. (a) As used in this Section:

(d) The Commission shall not include an amount for CWIP in the rate base for any public utility for the period after December 31, 1988.

(e) Notwithstanding the provisions of paragraphs (b) and (d) of this Section the Commission may include in the rate base of a public utility an amount for CWIP for a public utility's investment which is scheduled to be placed in service within 12 months of the date of the rate determination. For the purposes of this paragraph nuclear generating facilities shall be considered to be in service upon the commencement of electric generation.

(f) Notwithstanding the provisions of paragraph (b) and (d), the Commission may include in the rate base of a public utility an amount of CWIP for a public utility's investment in pollution control devices for the control of sulfur dioxide emissions and the purification of water and sewage; provided, however, that upon application by a public utility which is constructing one or more pollution control devices for the control of sulfur dioxide emissions as part of a Clean Air Act compliance plan approved by the Commission pursuant to subsection (e) of Section 8-402.1, the Commission shall include in such public utility's rate base an amount of CWIP equal to its investment in such pollution control device or devices, but not to exceed the estimated cost of such facilities specified in the Commission's order or supplemental order pursuant to subsection (e) of Section 8-402.1. For purposes of this subsection (f), the public utility's investment shall not include the amount of any state, federal or other grants provided to the public utility to fund the design, acquisition, construction, installation and testing of pollution control devices for the control of sulfur dioxide emissions.

(Source: P.A. 87-173.)

[v] Order language from 1982 case:

The Commission is charged by law to establish rates that are fair, just, reasonable and sufficient. That mandate is not met if the denial of a portion of CWIP in rate base causes the company's finances to deteriorate to a point where it cannot obtain funds for needed construction. Therefore, the Commission continues to hold that a portion of CWIP may be lawfully allowed in rate base for ratemaking purposes under appropriate conditions.

Order language from 1981 case:

We disagree with the DSIs' recommendation of a 9% AFUDC offset to this amount of CWIP; Mr. Louiselle's offset recommendation was based on the overall analysis and use of the 9% offset against the lower CWIP figure would take his approach inappropriately out of context.

Progressive regulatory principle supports our treatment of this issue. The overall cost to ratepayers is less over time under this approach than under approaches requiring accumulation of AFUDC as a part of capital cost. Large construction programs, such as the ones here considered, pose critical needs for cash earnings and application of the AFUDC offset may not provide the cash flow necessary to meet construction requirements on reasonable terms, as well as coverage tests. We believe that this treatment affords the best balancing of consumer and investor interests for the period the rates governed by this order are likely to be in effect.