120 FERC ¶ 61,143
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Suedeen G. Kelly, Marc Spitzer,
Philip D. Moeller, and Jon Wellinghoff.

Central Vermont Public Service Corporation — Docket No. AC07-82-001

ORDER ON REHEARING

(Issued August 8, 2007)

1. On June 11, 2007, Central Vermont Public Service Corporation (CVPS) filed a request for rehearing of a delegated letter order issued May 10, 2007, by the Chief Accountant (May 10 Order).[1] The May 10 Order conditionally approved CVPS' accounting entries proposed in a March 22, 2007 filing to clear Account 102, Electric Plant Purchased or Sold, related to the purchase of Vermont Electric Cooperative, Inc.'s (VEC) Southern District distribution assets and electric service territory. However, the May 10 Order directed CVPS to clear the negative acquisition adjustment recorded in Account 114, Electric Plant Acquisition Adjustments, by debiting Account 114 and crediting Account 108, Accumulated Provision for Depreciation of Electric Utility Plant, rather than by crediting Account 406, Amortization of Electric Plant Acquisition Adjustments, as CVPS had proposed. As discussed below, the Commission denies rehearing of the May 10 Order.

Background

2. In its March 22, 2007 filing, CVPS stated that it purchased the distribution assets and electric service territory from VEC on December 8, 2006, following the December 4, 2006 approval of the Vermont Public Service Board (VPSB). CVPS stated that the VPSB allowed it to record the excess of the net book value over the purchase price and the direct acquisition costs to Account 114, Electric Plant Acquisition Adjustment, and also allowed it to amortize the electric plant acquisition adjustment over the estimated average remaining life of the fixed assets acquired from VEC. CVPS sought

[1] *Central Vermont Public Service Corp.*, Docket No. AC07-82-000 (May 10, 2007) unpublished letter order.

Commission authorization to record the amortization to Account 406, Amortization of Electric Plant Acquisition Adjustment.

3. In the May 10 order, the Chief Accountant stated that CVPS cleared the purchase through Account 102 and recorded the original cost and related accumulated depreciation on its books consistent with Electric Plant Instruction No. 5.[2] The Chief Accountant further stated that CVPS purchased the assets at a price lower than their net book value, resulting in a negative acquisition adjustment, which it recorded in Account 114. While recognizing that CVPS proposed to amortize the negative acquisition adjustment to Account 406 over the remaining life of the distribution assets, the Chief Accountant stated that Commission policy requires that entities clear negative acquisition adjustments recorded in Account 114 by crediting the amounts to Account 108 at the time of purchase. The Chief Accountant explained that the Commission previously has held that the difference between the depreciated original cost and the purchase price represents a loss in service value that was not already recognized by the previous owner through depreciation, and it is Commission policy to treat the negative acquisition adjustment as additional accumulated depreciation not previously recognized.[3] Accordingly, the Chief Accountant directed CVPS to debit Account 114 and credit Account 108 for $1,008,824.

<u>Request for Rehearing</u>

4. On rehearing, CVPS asserts that the May 10 Order erroneously found that the difference between the depreciated original cost and the purchase price of the acquired assets represents a loss in service value that was not already recognized through depreciation. CVPS contends that the difference is actually a difference in the buyer's and seller's accounting treatment of contributions paid for plant assets by customers. As such, CVPS maintains that it would be inappropriate to treat the negative acquisition adjustment as additional accumulated depreciation not previously recognized. CVPS states that the VPSB approved this method of recognizing the difference in the buyer's and seller's accounting treatment of contributions paid for plant assets by customers.

5. In the alternative, CVPS requests that the Commission allow it to (1) record the difference between the purchase price and the net book value to Account 101, Electric Plant in Service, or (2) record the acquisition at its purchase price, thus eliminating the need to amortize the excess of the net book value over the purchase price.

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[2] 18 C.F.R. Part 101 (2007).

[3] *Citing Locust Ridge Gas Co.*, 29 FERC ¶ 61,052, at p. 61,114 (1984) (*Locust Ridge*); and *Southwestern Public Service Company and New Mexico Electric Service Co.* (*Southwestern*), 23 FERC ¶ 61,153 (1983).

6. Citing Rule 713(c)(3),[4] CVPS attaches to its rehearing request certain additional information that it did not include in its initial request, and thus the information was not available for consideration by the Chief Accountant at the time the May 10 Order was issued.[5]

Commission Analysis

7. Under provisions of the Federal Power Act (FPA),[6] the Commission requires that public utilities and licensees keep financial information and related records in accordance with rules and regulations contained in the Uniform System of Accounts (USofA).[7] The Commission's USofA is designed to be a comprehensive body of accounting principles and financial reporting requirements that are to be uniformly followed by companies regulated by the Commission. CVPS is a public utility subject to the Commission's accounting and financial reporting requirements. The Commission is not bound by the decision of the VPSB directing CVPS to follow a particular methodology to account for the acquired plant.

8. The May 10 Order properly relied on long-standing Commission precedent holding that the difference between the depreciated original cost and the purchase price represents a loss in service value that was not already recognized by the previous owner through depreciation. The May 10 Order states that this negative acquisition adjustment is treated as additional accumulated depreciation not previously recognized.[8] In *Locust Ridge*, the Commission further explained that:

[4] 18 C.F.R. § 385.713(c)(3) (2007).

[5] CVPS states that the additional information includes an excerpt from the prefiled testimony of VEC's Chief Financial Officer, which was filed with the VPSB on July 28, 2006, in Docket No. 7210. CVPS states that the testimony explains how the purchase price was developed. The additional information also includes excerpts from the VPSB's December 4, 2006 Order in Docket No. 7210.

[6] 16 U.S.C. § 825 (2000).

[7] *See* 18 C.F.R. Part 101, Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act (2007).

[8] *Locust Ridge*, 29 FERC ¶ 61,052, at p. 61,114 and n.15 (1984); *Southwestern*, 23 FERC ¶ 61,153 (1983).

> If the Commission did not require the booking of a negative acquisition adjustment, the purchaser of a facility would be able to realize a return on, and return of, a larger amount than what it invested in acquiring the facility. There is no basis for assuming that the service value of the facility at the time of an acquisition is greater than the arms-length price paid for the facility.[9]

9. As previously mentioned, the purchase of the distribution assets was based upon a negotiated arms-length transaction between a willing buyer, CVPS, and a willing seller, VEC. As such, the negotiated purchase price was less than the depreciated original cost of the distribution assets. Under these circumstances, the Commission has held that, when the amount paid for the assets is less than the depreciated original cost, the negative acquisition adjustment is recorded as part of accumulated provision for depreciation.[10]

10. Further, the accounting and reporting treatment required for this transaction by the Commission does not prohibit CVPS from reporting this transaction in a different manner to the VPSB for purposes of developing retail rates.[11] Therefore, nothing contained in this order should be construed as preventing CVPS from reporting to the VPSB pursuant to its December 4, 2006 Order. Accordingly, the Commission affirms the May 10 Order and denies rehearing.

11. Inasmuch as the Commission is denying rehearing, the Commission will now consider CVPS' alternative plea that it be permitted to (1) record the difference between the purchase price and the net book value to Account 101, Electric Plant in Service, or (2) record the acquisition at its purchase price, thus eliminating the need to amortize the excess of the net book value over the purchase price. For the reasons discussed below, the Commission denies CVPS' requested alternative treatment.

12. CVPS' alternative proposals to account for the purchase of the distribution assets would result in Account 101 being understated and not reflecting the original cost of the facilities purchased. Electric Plant Instruction No. 2 requires amounts included in the accounts for electric plant acquired as an operating unit or system to be stated at the cost incurred by the person who first devoted the property to utility service (original cost

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[9] *Locust Ridge Gas Co*., 29 FERC ¶ 61,052, at p. 61,114 at p. 61,114 (1984).

[10] *Id*.

[11] *See* FPA section 301 (a) which states in part, "That nothing in this Act shall relieve any public utility from keeping any accounts, memoranda, or records which such public utility may be required to keep by or under authority of the laws of any State."

principle).[12] CVPS' alternative proposals would result in the balance of Account 101 reported to the Commission being reduced by the $1,008,824 negative acquisition adjustment. CVPS' proposed alternatives are not consistent with the Commission's USofA. Therefore, the Commission also denies CVPS' alternative requests.

The Commission orders:

CVPS' request for rehearing of the May 10 Order and its requests for alternative consideration are denied, as discussed in the body of this order.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.

[12] 18 C.F.R. Part 101 (2007).