UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Accrual of Allowance for Funds Used During Construction	Docket No. AD10-3-000
Pacific Connector Gas Pipeline, LP	Docket Nos. CP07-441-000
Florida Gas Transmission Company, LLC	Docket No. CP09-17-000 Docket No. AC08-161-000
Southern Natural Gas Company	Docket No. CP09-36-002
Southeast Supply Header, LLC/ Southern Natural Gas Company	Docket No. CP09-40-001
Ruby Pipeline, LLC	Docket No. CP09-54-001
Texas Eastern Transmission, LP	Docket No. CP09-68-000

NOTICE OF TECHNICAL CONFERENCE ON COMMISSION POLICY ON COMMENCEMENT OF ACCRUAL OF ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION

(December 2, 2009)

In several recent and pending cases,[1] the Commission has been presented with proposals to accrue Allowance for Funds Used During Construction (AFUDC) on expenditures made prior to the time that an application is filed for authorization to construct and operate a natural gas pipeline. Applicants and potential applicants have suggested that the Commission should allow the accrual of AFUDC with respect to expenses incurred prior to the filing of a certification application, particularly those costs incurred during the pre-filing period.

In establishing cost-based rates, the Commission has traditionally included only costs relating to a plant that is “used and useful” in utility operations. However, the Commission has recognized that the entities it regulates incur costs associated with the funds invested in construction projects prior to the time the facilities are placed in service (i.e., are “used and useful”), and, accordingly, has allowed entities to reflect these financing costs by accruing AFUDC. When the completed facilities are placed in

[1] *Texas Eastern Transmission, LP*, 129 FERC ¶ 61,151 (2009); *Florida Gas Transmission Company, LLC*, 129 FERC ¶ 61,150 (2009); *Ruby Pipeline, LLC*, 128 FERC ¶ 61,224 (2009); *Pacific Connector Gas Pipeline, LP*, Docket Nos. CP07-441-000, CP07-442-000, and CP07-443-000; *Southern Natural Gas Company*, Docket No. CP09-36-002.

service, the cost of the facilities, including the accrued AFUDC, becomes part of rate base. The entity is then able to recover the capitalized AFUDC in the same manner as other capital costs, i.e. through rates which include depreciation charges to recover the capitalized amounts over the service life of the facilities. Gas Plant Instruction 3(17) prescribes the formula for determining the maximum amount of AFUDC that may be capitalized as a component of construction costs.[2] The Commission has required an applicant to limit its AFUDC rate to a rate no higher than it could earn on operating assets. The Commission has limited the maximum amount of AFUDC that the pipeline could capitalize by limiting the AFUDC rate to a rate no higher than the overall rate of return underlying its recourse rates.[3]

Until recently, the Commission has not addressed the question of what project-related expenditures may appropriately be the subject of AFUDC accrual. However, in 1968 the Chief Accountant issued AR-5, Capitalization of Interest During Construction, which among other things, provided guidance on when a natural gas pipeline company may begin accruing AFUDC on expenditures related to construction projects. AR-5 set forth two standards for beginning the accrual of AFUDC. Specifically, AR-5 states, in relevant part:

> Interest during construction may be capitalized starting from the date that construction costs are continuously incurred on a planned progressive basis. Interest should not be accrued for the period of time prior to: … the date of the application to the Commission for a certificate to construct facilities by a natural gas company. Interest accruals may be allowed by the Commission for the period prior to the above dates if so justified by the company.

Under this guidance, interest may be capitalized, i.e., AFUDC may be accrued, starting from the date (1) "construction costs are continuously incurred on a planned progressive basis," but (2) not before the date an application to construct the facilities is filed with the Commission, unless justified by the applicant.

Since the issuance of AR-5, the natural gas pipeline industry has gone though many changes. So, too, has the process for obtaining Commission authorization to construct and operate natural gas pipeline facilities. Commission staff has for several years strongly encouraged potential applicants to engage in extensive stakeholder contact, route development, facility design, and environmental study prior to filing an application. This process has the virtue of providing for early public engagement, as well as early understanding of environmental issues, stakeholder concerns, and other matters that may

---

[2] 18 C.F.R. Part 201 (2009).

[3] *See Gulfstream Natural Gas System, LLC*, 91 FERC ¶ 61,119 (2000) and *Buccaneer Gas Pipeline Co., LLC*, 91 FERC ¶ 61,117 (2000).

affect pipeline design and route selection issues. Substantial expenditures may be incurred during this period, raising the question of the continuing propriety of the Commission's current policy of limiting the accrual of AFUDC to expenditures incurred after the filing of an application. Therefore, the Commission is convening a technical conference seeking input and comment on this issue. Participants may be guided by, but should not consider themselves limited to, the following questions prepared by Commission staff.

1) Is it appropriate to continue to use the filing date of an application for a certificate to construct facilities to determine the expenses on which an applicant may accrue AFUDC? Under what circumstances, if any, should the Commission allow an applicant to accrue AFUDC on expenditures made before the application date?

2) Should the Commission seek to define the term "if construction results" as used in relation to Account 183.2, i.e., when it is appropriate to clear amounts from Account 183.2 and when an applicant may appropriately begin recording expenditures in Account 107, Construction Work in Progress? If so, how should the term be defined for these purposes and what objective indicia of "construction" would be appropriate?

3) Is "the continuous incur[ing] of construction costs on a planned progressive basis" a useful standard for designating expenses on which an entity may accrue AFUDC, and, if so, what are the indications that this standard has been met?

4) Should there be a presumption that it is appropriate to accrue AFUDC on all expenditures recorded in Account 107?

5) Should the date an applicant is authorized to commence the formal pre-filing process be the date as of which it should be allowed to accrue AFUDC?
a. If so, when should applicants that do not participate in the pre-filing process be allowed to begin to accrue AFUDC?
b. If so, under what circumstances, if any, should an applicant be allowed to accrue AFUDC before commencing the pre-filing process?

6) Should the Commission allow applicants to accrue AFUDC on amounts recorded in Account 183.2? If so, under what circumstances?

7) What other bases should the Commission consider for allowing applicants to begin accruing AFUDC?

The technical conference will be held on Tuesday, December 15, 2009, from 9:00 am until 1:00 pm, in the Commission Meeting Room, at the Commission's offices at 888

First Street, NE, Washington, DC. The conference will begin with a presentation by Commission staff, followed by discussion among the attendees. All interested parties are invited to attend, and there is no registration fee to attend the conference.

Any person interested in filing comments before the technical conference may do so, in Docket No. AD10-3-000 and also, if the comments pertain to any ongoing proceeding, in that proceeding's docket, as well, no later than 5:00 pm, December 11, 2009. Following the conference, persons may file comments, in Docket No. AD10-3-000 and also, if the comments pertain to any ongoing proceeding, in that proceeding's docket, as well, no later 5:00 pm, December 29, 2009. A person is not required to attend the conference in order to file comments.

Any person with questions about the conference may contact Scott Molony, Chief Accountant, at (202) 502-8919, or Mark Klose, Senior Accountant, at (202) 502-8283

FERC conferences are accessible under section 508 of the Rehabilitation Act of 1973. For accessibility accommodations please send an email to accessibility@ferc.gov or call toll free (866) 208-3372 (voice) or (202) 502-8659 (TTY), or send a fax to (202) 208-2106 with the required accommodations.

Kimberly D. Bose,
Secretary.