



FEDERAL ENERGY REGULATORY COMMISSION

March 18, 2010

Commissioner Marc Spitzer

Docket Nos. CP09-36-002, CP09-40-001, and AD10-3-000,
CP09-17-001, AC08-161-002, and AD10-3-000

Item Nos. C-1 & C-2

Statement of Commissioner Marc Spitzer on Allowance for Funds Used During Construction (AFUDC)

"The Commission recognizes that natural gas companies incur costs related to funds invested in construction projects prior to the time that facilities are placed in or ready for service, and accordingly, has permitted jurisdictional companies to reflect these financing costs by accruing Allowance for Funds Used During Construction (AFUDC). Moreover, the Commission has used the guidance issued by the Commission's Chief Accountant in AR-5 to address when a company may begin to accrue AFUDC. The Commission, however, has restricted the maximum amount of AFUDC that a natural gas pipeline could capitalize to a rate not to exceed the overall rate of return underlying its recourse rates.¹

In various cases over the past year, natural gas companies have sought to accrue AFUDC on expenditures made prior to the time that a certificate application was filed. The applicants suggested that the Commission should allow accrual of AFUDC on expenditures made prior to the filing of a certificate application, particularly on those costs incurred during the pre-filing period. In light of these arguments, Commissioner Kelly and I urged our colleagues to solicit comments from the natural gas industry at large and thus, the Commission Staff convened a technical conference on the issue seeking input and comments on the Commission's policy of limiting the accrual of AFUDC to expenditures incurred after the filing of an application.² The Commission received extensive comments on the issue.

Recognizing that the natural gas industry has undergone significant changes since the issuance of AR-5 in 1968 and that many natural gas companies take advantage of the pre-filing process, today we find that these changes require us to modify our AFUDC accrual policy. Therefore, the Commission is revising its policy to allow natural gas pipelines to begin accruing AFUDC on construction projects when the following two conditions are met: (1) capital expenditures for the project have been incurred and (2) activities that are necessary to get the construction project ready for its intended use are in progress. We will construe the term of "activities" broadly but the term does not include preliminary survey and investigation activities.

I thank the Team for their hard work on this issue.

I agree with the orders rulings that this revised policy will serve to promote infrastructure development and will allow natural gas companies the opportunity to earn a return on all prudent expenditures made during project construction."

¹See *Gulfstream Natural Gas System, LLC.*, 91 FERC ¶ 61,119 (2000); *Buccaneer Gas Pipeline, L.L.C.*, 91 FERC ¶ 61,117 (2000).

²*Notice of Technical Conference on Commission Policy on Commencement of Accrual of Allowance for Funds Used During Construction*, 74 Fed. Reg. 65,117 (December 2, 2009). Pre-technical conference comments were due December 11, 2009. Post-technical conference comments were due December 29, 2009.