137 FERC ¶ 61,049
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Philip D. Moeller, John R. Norris,
and Cheryl A. LaFleur.

Colorado Interstate Gas Company — Docket Nos. AC10-22-004
AC10-22-000
AC10-22-001
AC10-22-003

ORDER DENYING REHEARING

(Issued October 20, 2011)

1. In this order, the Commission denies a request for rehearing by Colorado Interstate Gas Company (CIG)[1] of a delegated letter order issued September 20, 2010, by the Chief Accountant (Letter Order).[2] The Letter Order denied CIG's request for approval of proposed accounting entries to record the sale of the Natural Buttes Gas Processing Plant and related facilities (Natural Buttes Facilities or facilities) to Chipeta Processing L.L.C. (Chipeta).

Background

2. On January 13, 2009, CIG filed an application under section 7(b) of the Natural Gas Act (NGA) seeking Commission approval for CIG to abandon the Natural Buttes

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[1] CIG is a natural gas company, as defined in the Natural Gas Act, engaged in the open-access transportation, sale and storage of natural gas in interstate commerce. CIG is authorized to conduct business in Colorado, Kansas, Montana, New Mexico, Oklahoma, Texas, Utah, and Wyoming. CIG's interstate transmission system extends from supply areas in Texas, Oklahoma, Kansas, Colorado, Wyoming, Montana, and Utah to major delivery areas along the eastern slope of the Rocky Mountains in Colorado and Wyoming and to major off-system delivery points.

[2] *Colorado Interstate Gas Company*, Docket No. AC10-22-000, *et al*. (September 20, 2010) unpublished letter order.

Facilities by selling them to Chipeta.[3] In its application, CIG stated that its proposed abandonment should be approved because it no longer needed these facilities to meet its firm service obligations as an open-access transporter as it no longer performed a merchant function. In addition, CIG stated that, due to the proximity of other newer and more efficient plants, the volumes of gas compressed and processed at the Natural Buttes Facilities diminished by approximately 80 percent, reaching a point where the facilities were approaching their minimum design capacity. CIG asserted that the abandonment would ultimately result in reduced costs for CIG's customers by removal of these facilities from its cost of service and rate base. CIG also asserted that its proposed abandonment would not cause an abandonment of service to, or have significant impact on, any of its existing customers. The Commission approved the abandonment request on August 3, 2009 (Certificate Order).[4] Finally, the Commission ordered CIG to file its final accounting to clear Account 102 within six months of the date that transfer of the Natural Buttes Facilities was completed, in accordance with the Commission's requirements.

3. On November 30, 2009, CIG filed its final accounting entries recording the sale of the Natural Buttes Facilities. CIG's proposed accounting entries cleared the sale of the Natural Buttes Facilities through Account 102, Gas Plant Purchased or Sold, and removed the original cost and an estimate of accumulated depreciation related to the Natural Buttes Facilities from its books. CIG proposed to recognize a gain of $7.8 million on the sale and record the gain in Account 421.1, Gain on Disposition of Property. CIG determined the gain by subtracting the proceeds received on the sale from the net book value (i.e., the original cost less accumulated depreciation) of the Natural Buttes Facilities.

4. CIG estimated the accumulated depreciation on the Natural Buttes Facilities using a technical obsolescence appraisal method. CIG claimed that it found the technical life appraisal to be the most appropriate for determining the facilities' net book value. Under this method, CIG estimated the accumulated depreciation associated with the Natural Buttes Facilities to be $34.2 million and the resulting net book value of the facilities was $610,292. CIG stated that applying the composite rate method (in which historic composite depreciation rates are applied to the original cost of abandoned facilities on a

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[3] *See* Application of Colorado Interstate Gas Company for Authorization to Abandon by Sale and Transfer its Natural Buttes Compressor Station and Processing Plant under Docket No. CP09-45-000.

[4] *Colorado Interstate Gas Company and Chipeta Processing L.L.C.*, 128 FERC ¶ 61,122 (2009).

vintage year basis) resulted in a $21 million net book value.[5] CIG contended that this result was unreasonable, given that it had determined the facility to be obsolete.

5. In the Letter Order, the Chief Accountant stated that CIG's proposed accounting did not determine accumulated depreciation associated with the Natural Buttes Facilities in accordance with depreciation rates approved by the Commission. The Chief Accountant also stated that CIG inappropriately estimated amounts of accumulated depreciation based on the premise that such amounts could be determined by applying vintage year composite depreciation rates to the cost of the facilities and therefore it did not need to be estimated. The Chief Accountant further stated that CIG's proposed use of a technical obsolescence method has not been specifically approved by the Commission. The Chief Accountant emphasized that CIG's proposed use of the technical obsolescence method has the effect of retroactively altering composite depreciation rates and applying them to individual assets within the composite pool, in direct conflict with the principles of the composite method of depreciation and the Commission's regulations under Gas Plant Instruction (GPI) No. 5, Gas Plant Purchased or Sold.[6] Accordingly, the Chief Accountant directed CIG to apply the actual composite depreciation rate used to depreciate the Natural Buttes Facilities on a vintage year basis to determine accumulated depreciation applicable to the facilities.[7] The Chief Accountant also directed CIG to correct and resubmit its accounting for the Natural Buttes Facilities sale within 30 days of the date of the Letter Order.

6. On October 20, 2010, CIG filed a request for rehearing of the Letter Order, arguing that it erred by failing to approve its proposed accounting treatment. CIG contends that its proposed accounting treatment: (1) accurately estimates the accumulated depreciation related to the Natural Buttes Facilities carried on its books; (2) is consistent with GPI No. 5; and (3) is consistent with the composite depreciation method and other methods for estimating accumulated depreciation previously accepted by the Commission in other proceedings. CIG also challenges the findings in the Letter Order that CIG's proposed depreciation method has the effect of retroactively altering the composite depreciation rate. In addition, CIG asserts that the Letter Order erred by finding that it must apply the actual composite depreciation rate used to depreciate the

[5] CIG has historically used the composite method of depreciation to depreciate its products extraction plant, including the Natural Buttes Facility.

[6] 18 C.F.R. Part 201 (2011).

[7] The Chief Accountant's directives change CIG's gain on the sale of $8 million to a loss of $13 million and reduce CIG's net gas utility plant balances by $21 million.

Natural Buttes Facilities on a vintage year basis to determine its accumulated depreciation and resulting net book value.

7. Finally, CIG asks that, if the Commission determines that CIG must use the actual composite depreciation rate used to depreciate the Natural Buttes Facilities on a vintage year basis, it should find that the Natural Buttes Facilities do not meet the criteria of an operating unit, so the facilities would not be counted as part of the asset group. It also requests, alternatively, that if the Commission does not grant rehearing or find that the facilities are not an operating unit, it should nonetheless waive any accounting requirements necessary to permit CIG to implement its proposed accounting treatment under the facts and circumstances of this proceeding. Another option CIG advances would be for the Commission to allow it to establish a regulatory asset for the loss on the transaction. Lastly, CIG offers several possible interpretations of how to implement the directives of the Letter Order and seeks clarification of which option it should follow, in the event that the Commission denies rehearing.

8. As discussed below, we deny rehearing because the relief CIG seeks would be inconsistent with the Commission's Uniform System of Accounts (USofA)[8], prior Commission precedent, and the principles of composite depreciation. We also provide clarification of the Letter Order as explained further below.

Discussion

A. **Computation of Accumulated Depreciation**

Request for Rehearing

9. On rehearing, CIG asserts that that it accurately determined the amount of the accumulated depreciation related to the Natural Buttes Facilities carried on its books. CIG contends that the primary issue before the Commission here is whether there is but one proper method to estimate and determine the accumulated depreciation and resulting net book value for an individual asset from within a composite class or classes. CIG argues that based on the rationale presented in the Letter Order, the Commission appears for the first time to have found that there is only one acceptable method to calculate accumulated depreciation for an operating unit that is extracted from the composite total.

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[8] 18 C.F.R. Part 201 (2011).

CIG maintains that when the book cost of an asset is not available from the books and records, the Commission permits utilities to provide a reasonable estimate.[9]

10. CIG also asserts that the average or composite rate is not the actual depreciation rate for the individual plant and does not produce the specific accumulated depreciation related to an individual asset that is "carried" on a pipeline's books. CIG claims that by allocating to the Natural Buttes Facilities a portion of the total accumulated depreciation generated by the composite rate, CIG has appropriately assigned a reasonable share of the total accumulated depreciation to the Natural Buttes Facilities.

11. Further, CIG argues its method is based on accepted principles for determining the useful life of an asset for CIG and its shippers. CIG asserts that because the Natural Buttes Facilities were expected to and did cease operations, they were no longer used and useful to CIG and its customers. CIG avers that the facilities had little to no remaining economic or useful life and were, except for any associated salvage value, effectively a fully depreciated asset within a larger composite asset group.

12. CIG asserts that the total accumulated depreciation amounts generated by the composite depreciation rate have remained unchanged and that the total amounts have merely been allocated to the assets within the classes. Therefore, CIG argues, there is no retroactive change to the composite rates and they are given their full effect. CIG contends that the method required by the Letter Order, which applies the average composite depreciation rate to the Natural Buttes Facilities, does not reasonably determine the accumulated depreciation amount for an individual asset within the group comprised of disparate useful lives.

13. Finally, CIG claims that the Commission has previously rejected the claim that using something other than the composite depreciation rate would result in a retroactive adjustment in the composite depreciation rate. CIG asserts that the Letter Order fails to adequately explain how its result is consistent with past Commission precedent. CIG asserts that the Letter Order is unsupported by the cases relied upon, inconsistent with other methods accepted and approved by the Commission, and inconsistent with the application of similar regulations.

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[9] Relying on GPI No. 10 (B)(2) & (D) of the Commission's USofA, CIG asserts that the book cost of an asset is to be determined from the utility's records; however, if such a determination cannot be made, CIG argues, the book cost is estimated. CIG states that GPI No. 10 (D) specifies an estimation method. Further (citing Order No. 598, CIG argues that the Commission has made clear that the estimation method is not exclusive and permits other estimation methods).

Commission Determination

14. We find that CIG's use of the technical obsolescence appraisal method to determine the amount of the accumulated depreciation carried on its books applicable to the Natural Buttes Facilities does not reflect the appropriate amount of depreciation expense recorded over the depreciable life of these facilities. Also, CIG's use of this method has the effect of modifying historical and existing depreciation rates already approved by the Commission. Moreover, CIG's use of the technical obsolescence appraisal method does not comply with the Commission's USofA because this method fails to result in the appropriate amount of accumulated depreciation applicable to the Natural Buttes Facilities. The technical obsolescence appraisal method used by CIG to determine the amount of accumulated depreciation is an appraisal technique rather than an acceptable depreciation method. As discussed below, CIG's use of the technical obsolescence appraisal method to determine the accumulated depreciation applicable to the facilities resulted in an overstatement of gas utility plant and the inappropriate recognition of a gain on the sale of these facilities when a loss should have been recognized.

15. CIG represents that the facilities are an operating unit or system. GPI No. 5 requires that when gas utility plant constituting an operating unit or system is sold, the amount of accumulated depreciation applicable to the asset sold is to be charged to the account for accumulated depreciation, i.e., Account 108, Accumulated Provision for Depreciation of Gas Utility Plant. In determining this amount of accumulated depreciation, a natural gas pipeline should total the amount of depreciation applicable to a facility sold that was expensed during its life. This requires a natural gas pipeline to apply the depreciation rates approved by the Commission to the cost of facilities sold on a vintage year basis. When this information is unknown, a company should estimate the amount of depreciation expense taken during the life of the assets sold. CIG knew the amount of depreciation recorded on its books applicable to the Natural Buttes Facilities. Therefore, CIG did not need to estimate the accumulated depreciation.

16. The Commission has consistently required the use of the composite method of depreciation to determine the amount of accumulated depreciation in past cases involving the accounting for the sale of an operating unit or system under GPI No. 5. For example, in El Paso,[10] the Commission authorized the abandonment by sale of certain facilities and

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[10] *El Paso Natural Gas Company*, 52 FPC 402, *reh'g denied*, 52 FPC 1039 (1974), *vacated in part*, 19 FERC ¶ 61,330 (*El Paso*). The initial Commission order was vacated in part by deleting the authorization for the abandonment of facilities 8 years after its issuance because El Paso decided not to make the transfer. However, the Commission stated that all other aspects of the Commission order shall remain in full force and effect.

directed El Paso to compute the accumulated depreciation applicable to facilities sold "by calculating the related accumulated provision for depreciation on the basis of the book rates of deprecation which it has utilized in depreciating the facilities." In addition, on rehearing the Commission clarified that "such amount [the accumulated depreciation] should be determined by use of the actual deprecation rates applicable to the cost of the plant." The Commission continues stating that "no method of determining the depreciation amount based on some forecast of remaining useful life, as utilized by El Paso, is authorized by the provisions of the Uniform System of Accounts." Moreover, in Transwestern,[11] the Commission approved without modification a settlement which included the abandonment by sale of certain facilities. However, the Commission required an accounting change to be consistent with the USofA. The Commission directed Transwestern to compute the accumulated depreciation associated with the transfer of facilities by using the actual recorded amounts of accumulated depreciation determined on a vintage basis rather than re-computing the amount of depreciation that should have been recorded based on a reserve study. These cases demonstrate that a natural gas pipeline must determine the amount of accumulated depreciation on the sale of an operating unit or system, using the actual amount of depreciation taken on the facilities transferred on a vintage year basis.

17. CIG has historically used the composite method of depreciation to depreciate its products extraction, transmission, and general plant, which included the Natural Buttes Facilities.[12] CIG placed the facilities in service in 1992 and subsequently sold the facilities on November 17, 2009.[13] From 1992 until 2009, CIG recorded depreciation on these facilities using Commission-approved composite depreciation rates.[14] To effectuate

[11] *Transwestern Pipeline Company*, 72 FERC ¶ 61,085 (1995) (*Transwestern*).

[12] Under the composite method of depreciation, a number of similar or related assets are included in a group to which a single composite depreciation rate is applied. The assets within the group typically have various useful lives and therefore the single composite rate reflects an average useful life for all the assets within the group. The development and use of composite depreciation rates recognize that some assets within the group will outlive the average useful life of the group while other assets within the group will be retired from service earlier than the average life. Composite depreciation rates are developed and subsequently modified based on a depreciation study that determines the remaining useful life of individual assets and computes the resulting composite rate.

[13] *See* CIG request for accounting approval submitted on Nov. 30, 2009 in Docket No. AC10-22-000, Tab B, at 1.

[14] *Colorado Interstate Gas Company*, 100 FERC ¶ 61,154 (2002).

the sale of the facilities in 2009, CIG used the technical obsolescence appraisal method to determine the amount of accumulated depreciation. CIG's use of the technical obsolescence appraisal method is flawed because it does not result in the appropriate amount of accumulated depreciation applicable to these facilities. Since the technical obsolescence appraisal method results in an inappropriate amount of accumulated depreciation over the life of these facilities, CIG has removed too much accumulated depreciation from Account 108 and effectively altered the composite depreciation rates previously approved by the Commission, consistent with the finding in the Letter Order.

18. The original cost of the Natural Buttes Facilities was $34.8 million. CIG's use of the technical obsolescence appraisal method resulted in the removal of $34.2 million of accumulated depreciation from Account 108 and a net book value of $0.6 million ($34.8 million original cost less $34.2 million of accumulated depreciation). The facilities were sold for $8.4 million and CIG proposed to recognize a $7.6 million ($8.4 million sales price less $0.6 million net book value) gain on the sale. However, using the Commission's approved composite depreciation rates, CIG would have removed $13.4 million of accumulated depreciation from Account 108 and the facilities would have a $21.4 million net book value ($34.8 million original cost less $13.4 million of accumulated depreciation). Consequently, CIG would recognize a loss of $13 million ($8.4 million sales price less $21.4 million net book value). Also, the difference in the $34.2 million and $13.4 million removed from accumulated depreciation effectively overstated gas utility plant by $20.8 million.

19. Citing to *Williston Basin,*[15] CIG states that its method is based on accepted principles for determining the useful life of an asset for CIG and its shippers. CIG states that the Commission found that when an asset became useless it was fully depreciated under the principles of composite depreciation. However, in *Williston Basin*, the Commission did not make any finding that useless plant is considered to be fully depreciated. The Commission held that certain gathering and other facilities, which were no longer used and useful must be removed from plant in service upon retirement. Consistent with GPI No. 10, Additions and Retirements of Gas Plant, the Commission held that the original cost must be subtracted from the gas utility plant account and subtracted from the accumulated provision for depreciation. However, as CIG points out, the sale of the Natural Buttes Facilities does not fall under the requirements of GPI No. 10. Rather, this transaction is the sale of an operating unit or system, which is accounted for under GPI No. 5. Therefore, CIG's reliance on *Williston Basin* is misplaced.

[15] *Williston Basin Interstate Pipeline Company*, 55 FERC ¶ 61,341, at 62024-25 & n.56 (1991) (*Williston Basin*).

20. Citing to *Williams*, CIG also states that the Commission has specifically rejected the view that the technical obsolescence appraisal method results in a retroactive adjustment to the composite depreciation rate and has rejected the position that the use of the composite depreciation rate determines the accumulated depreciation amounts related to a specific asset.[16] *Williams* however involves a request to modify existing depreciation rates and methods, which is a different set of circumstances than CIG's sale of the Natural Buttes Facilities. CIG is requesting to determine the amount of accumulated depreciation associated with the facilities using an appraisal method based on technical obsolescence that is different from the amount of accumulated depreciation using depreciation rates approved by the Commission. Therefore, the case cited by CIG does not speak to the application of GPI No. 5 and the determination of amounts to be removed from Account 108 upon the sale of an operating unit or system.

21. Citing to *Northern*,[17] CIG argues that the Commission has approved estimates of accumulated depreciation that adjust the results of applying the composite rate to the vintage plant amounts for the related assets. CIG explains that in this order the Commission approved adjustments to the estimates of accumulated depreciation for an entire class of assets. CIG asserts that the Commission approved the pipeline's use of an iterative methodology to ensure that the total booked accumulated depreciation had been fully allocated and that no asset was allocated more than 100 percent of its original cost. CIG argues, that the approval of these adjustments in *Northern* contradicts the assertion in the Letter Order that any change to amounts of accumulated depreciation calculated by multiplying the composite rate by the plant on a vintage year basis also retroactively alters the composite depreciation.

22. In *Northern* the Commission authorized the abandonment by sale of certain facilities. To determine the amount of accumulated depreciation applicable to the facilities sold, Northern explained that it applied the FERC-approved depreciation rates on a straight line basis over the life of each asset within the depreciable group. Then, Northern developed a facility (asset) reserve ratio to avoid allocating accumulated depreciation in excess of the original cost of an asset. The Commission found that Northern's accounting was generally consistent with the requirements of the USofA. We note that the methodology in Northern is consistent with the method required in the Letter Order except for the need for Northern to make adjustments to the results to ensure that no asset was allocated accumulated depreciation in excess of its original cost. We note

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[16] Citing to *Williams Natural Gas Company*, 60 FERC ¶ 61,140, at 61,501-05 (1992) (*Williams*).

[17] *Northern Natural Gas Company*, 85 FERC ¶ 61,172, at 61,693-94 (1998) (*Northern*).

that in certain circumstances the application of the Commission approved depreciation rate may result in more accumulated depreciation being allocated to some assets than the original cost of the asset and adjustments may be warranted in those cases. However, CIG has represented that the application of the Commission approved composite depreciation rates would result in an accumulated depreciation amount less than the original cost of the Natural Buttes Facilities. Therefore, the modification permitted in Northern may not be applicable in the instant case. In any event, CIG's method to determine the amount of accumulated depreciation is not consistent with the method used in *Northern*.

23. CIG asserts that using the Commission-approved depreciation rates to determine the accumulated depreciation on the facilities inaccurately determines the amount of accumulated depreciation applicable to the facilities. However, contrary to CIG's assertion, using the Commission's approved composite depreciation rates CIG accurately determines the amount of accumulated depreciation carried on its books applicable to the Natural Buttes Facilities. CIG misinterprets the meaning of GPI No. 5. The determination of the amount of accumulated depreciation applicable to facilities sold under GPI No. 5 is a process to determine the amount of total depreciation expense recorded on a natural gas pipeline's books that is applicable to the facilities sold. It is not appropriate for CIG to compute the amount of accumulated depreciation using an appraisal technique to determine the fair value of the facilities sold. By CIG using the technical obsolescence appraisal method to determine the net book value of the facilities, the resulting net book value was lower that the amount determined using the Commission-approved composite depreciation rates. Therefore, it was inappropriate for CIG to use the technical obsolescence appraisal method to determine the net book value of facilities sold under GPI No. 5.

24. Accordingly, we are not persuaded by CIG's argument that the use of the technical obsolescence appraisal method is appropriate for determining the amount of accumulated depreciation attributable to these facilities. We find that CIG's method to determine the amount of accumulated depreciation is not appropriate because it does not reflect the use of the Commission's approved composite depreciation rates. CIG's use of the technical obsolescence appraisal method results in the overstatement of gas utility plant, effectively modifies depreciation rates approved by the Commission, and alters the gain or loss calculation by $20.8 million. Thus, we direct CIG to use the depreciation rates approved by the Commission to determine the amount of accumulated depreciation related to gas utility plant sold and the related gain or loss.

B. CIG's Alternative Proposals

25. CIG posed several alternative requests in the event the Commission denies rehearing. Specifically, CIG requested that the Commission (1) find that the Natural Buttes Facilities do not constitute an operating unit for accounting purposes, (2) waive any accounting requirements necessary to permit approval of its originally proposed

treatment based on the facts and circumstances in this proceeding, or (3) allow CIG to establish a regulatory asset.

<u>Commission Determination</u>

26. The Commission will deny CIG's alternative requests for the Commission (1) to determine that these facilities does not constitute an operating unit or system and (2) to grant CIG an accounting waiver to accept its proposed accounting using the technical obsolescence appraisal method of depreciation. We deny these requests because it is inappropriate for CIG to raise these issues when these matters were not mentioned in its initial application. A request for rehearing is not the appropriate venue to bring up such issues in the first instance.[18]

27. In any event, we note that the Commission through its Chief Accountant has previously found that a processing plant constitutes an operating unit or system.[19] In addition, CIG's originally proposed accounting entries recorded the sale of these facilities as an operating unit or system. Also, CIG did not make any argument in its original application to suggest that the facilities sold were not an operating unit or system. Besides, the determination of these facilities as an operating unit or system should not be contingent upon CIG's desired accounting outcome. In addition, the Commission will not waive its accounting requirements to permit CIG's technical obsolescence appraisal method based on the facts and circumstances in this proceeding. As discussed herein, CIG's method would determine an inappropriate amount of accumulated depreciation.

28. As mentioned above, we consider these facilities to be an operating unit or system. A loss on the sale of an operating unit or system is normally recorded below-the-line[20] in

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[18] The Commission has held that raising issues for the first time on rehearing is disruptive to the administrative process and denies parties the opportunity to respond. *Enron Energy Services Inc. v. Sellers of Energy*, 122 FERC ¶ 61,015, at P 64 & n.98 (2008) (*citing Pacific Power Company*, 96 FERC ¶ 61,050, at 61,124 (2001); *Midwest Independent Transmission System Operator, Inc.*, 117 FERC ¶ 61,113, at P 188 (2006) (denying rehearing of new issues as outside the proper scope of the rehearing)).

[19] *Texas Gas Transmission Corporation* (May 26, 1961) (unpublished and undocketed letter order).

[20] An above-the-line item is an accounting expense term that refers to FERC accounts typically used in the calculation of traditional cost-based rates or costs typically recovered from customers. A below-the-line item refers to FERC accounts typically excluded from rates recoverable from customers.

Account 421.2, Loss on Disposition of Property, unless a company can demonstrate a basis for deferring such a loss as a regulatory asset. CIG states that it will seek collection of the loss in its next rate case proceeding. We note that CIG has not explained its basis for determining that the amount of the loss is probable for inclusion in future rates. Therefore, CIG should assess all available evidence bearing on the likelihood of rate recovery of these costs in periods other than the period that would traditionally be charged to expense. If, based on such assessment, CIG determines that it is probable that these costs will be recovered in rates in future periods, it may record a regulatory asset for such amounts.[21] Additionally, we note that, if CIG records a regulatory asset for the amount of the loss, its doing so does not guarantee recovery of the loss in future rates. If rate recovery of all or part of the loss is later disallowed, the disallowed amount shall be charged to Account 426.5, Other Deductions, in the year of disallowance.

C. <u>Request for Clarification</u>

29. CIG requests clarification that Option 3-B as described in its rehearing request is acceptable under the Letter Order. Under Option 3-B, accumulated depreciation is determined by summing the approved depreciation rate for the products extraction processing function for each year since the assets have been placed in service and applying the summed accumulated depreciation rate total to the gross plant of all functional classes being retired.

<u>Commission Determination</u>

30. The Commission rejects CIG's use of Option 3-B as described in its rehearing request because it does not accurately determine depreciation on these facilities using the Commission-approved composite depreciation rates. We find that Option 3-B as described in CIG's rehearing request is not an acceptable approach under the Letter Order because it fails to properly implement the Letter Order's directive. We shall, however, clarify that CIG should use its functional composite depreciation rates (for processing, transmission, and compression) on a vintage year basis to determine accumulated depreciation related to the Natural Buttes Facilities.

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[21] The term "probable," as used in the definition of regulatory assets refers to that which can reasonably be expected or believed on the basis of available evidence or logic but is neither certain nor proved. *Revisions to Uniform System of Accounts to Account for Allowances under the Clean Air Amendments of 1990 and Regulatory-Created Assets and Liabilities and to Form Nos. 1, 1-F, 2 and 2-A*, Order No. 552, FERC Stats. & Regs. ¶ 30,967 (1993).

The Commission orders:

(A) CIG's request for rehearing is denied.

(B) CIG should use the composite depreciation rates (for products extraction, transmission, and general plant) on a vintage year basis to determine accumulated depreciation related to the Natural Buttes Facilities.

(C) Within 60 days of the date of this order, CIG must correct its accounting for the Natural Buttes Facilities sale, and correct and resubmit all affected annual and quarterly FERC financial forms.

By the Commission. Commissioner Spitzer is not participating.

(S E A L)

Nathaniel J. Davis, Sr.,
Deputy Secretary.