

between the average price quotations for the U.S. Memphis territory and the California/Arizona territory, as quoted for M 1<sup>3</sup>/<sub>32</sub> inch cotton, CFR Far East, and the average price of M 1<sup>3</sup>/<sub>32</sub> inch, leaf 3, (micronaire 3.5 through 3.6 and 4.3 through 4.9, strength 25.5 through 29.4 grams per tex, length uniformity 80 through 82 percent) cotton, as quoted each Thursday in the designated U.S. spot markets for that week, or

\* \* \* \* \*

(f) \* \* \*

(2) \* \* \*

(i) \* \* \*

(B) During the period when both current Far East shipment prices and forward Far East shipment prices are available for the growths quoted for "coarse count" cotton, CFR Far East, the result calculated by the following procedure: Beginning with the first week covering the period Friday through Thursday including April 15 or, if both the average of the current Far East shipment prices for the preceding Friday through Thursday for the three lowest-priced growths of the growths quoted for "coarse count" cotton, CFR Far East (Far East coarse count current price (FECCc)), and the average of the forward Far East shipment prices for the preceding Friday through Thursday for the three lowest-priced growths of the growths quoted for "coarse count" cotton, CFR Far East (Far East coarse count forward price (FECCf)), are not available during that period, beginning with the first week covering the period Friday through Thursday after the week including April 15 in which both the Far East coarse count current price and the Far East coarse count forward price are available:

(1) Weeks 1 and 2:  $(2 \times \text{FECCc}) + \text{FECCf}/3$ ;

(2) Weeks 3 and 4:  $(\text{FECCc} + \text{FECCf})/2$ ;

(3) Weeks 5 and 6:  $(\text{FECCc} + (2 \times \text{FECCf}))/3$ ; and

(4) Week 7 through July 31: The FECCf, minus:

\* \* \* \* \*

(g) If the 6-week transition period from using current Far East shipment prices to using forward Far East shipment prices in the determination of the FE under paragraph (a)(2) of this section, and the Far East coarse count price under paragraph (f)(2)(i)(B) of this section do not begin at the same time, CCC will use either current Far East shipment prices, forward Far East shipment prices, or any combination thereof to determine the FE and/or the Far East coarse count price used in the determination of the adjustment for upland cotton under paragraph (f)(1) of

this section and determined under paragraph (f)(2) of this section to prevent distortions in such adjustment.

\* \* \* \* \*

Signed at Washington, DC, on May 20, 2008.

**Teresa C. Lasseter,**

*Executive Vice President, Commodity Credit Corporation.*

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## DEPARTMENT OF AGRICULTURE

### Rural Utilities Service

#### 7 CFR Part 1767

**RIN 0572-AC08**

#### Accounting Requirements for RUS Electric Borrowers

**AGENCY:** Rural Utilities Service, USDA.

**ACTION:** Final rule.

**SUMMARY:** The Rural Utilities Service, an agency delivering the United States Department of Agriculture's Rural Development Utilities Programs, hereinafter referred to as Rural Development and/or Agency, is amending its regulation on accounting policies and procedures for Rural Development Electric Programs borrowers as set forth in 7 CFR part 1767, Accounting Requirements for Rural Development Electric Program Borrowers. This final rule reconciles Part 1767 with the Uniform System of Accounts as set forth by the Federal Energy Regulatory Commission (FERC); adopts FERC accounting guidance for Regional Transmission Organizations, Asset Retirement Obligations with modifications, Other Comprehensive Income, and Derivatives and Hedging Instruments; amends accounting interpretations for Special Equipment Accounting, Storm Damage, Rural Economic Development Loan and Grant Program and Consolidated Financial Statements; sets forth an accounting interpretation to establish uniform reporting procedures for Accounting for Cushion of Credit Accounts, and codifies guidance on records retention currently published in Bulletin 180-2. This final rule also corrects a number of administrative errors existing within this part. The section of the proposed rule that deals with accounting for and reporting on Renewable Energy Credits will be addressed in a subsequent final rule.

**EFFECTIVE DATE:** May 27, 2008.

**FOR FURTHER INFORMATION CONTACT:** Ms. Diana C. Alger, Chief, Technical

Accounting and Auditing Staff, Program Accounting Services Division, Rural Development, STOP 1523, Room 2221, South Building, U.S. Department of Agriculture, Washington, DC 20250, telephone number (202) 720-5227.

#### SUPPLEMENTARY INFORMATION:

##### General Discussion

On July 13, 2007 the Agency published a proposed rule in the **Federal Register** (72 FR 38511) entitled *Accounting Requirements for RUS Electric Program Borrowers*, and the public was invited to submit comments on or before September 11, 2007. Comments were received and are addressed in the Discussion Comment section of this rule. One issue still under consideration is the renewable energy credit market. The Agency has determined that it is best to defer any decisions on this accounting treatment until further information is available. A separate rulemaking will address this issue and will be published in the **Federal Register** at a future date.

##### Background

In order to facilitate the effective and economical operation of a business enterprise, adequate and reliable financial records must be maintained. Accounting records must provide a clear, accurate picture of current economic conditions from which management can make informed decisions in charting the company's future. The rate regulated environment in which an electric utility operates causes an even greater need for financial information that is accurate, complete, and comparable with that of other electric utilities.

Rural Development, as a Federal lender and mortgagee, and in furthering the objectives of the Rural Electrification Act (RE Act) (7 U.S.C. 901 *et seq.*), has a legitimate programmatic interest and a substantial financial interest in requiring adequate records to be maintained. In order to provide Rural Development with financial information that can be analyzed and compared with the operations of other borrowers in the Rural Development program, all Rural Development borrowers must maintain financial records that utilize uniform accounts and uniform accounting policies and procedures. The standard Rural Development security instrument, therefore, requires borrowers to maintain their books, records, and accounts in accordance with methods and principles of accounting prescribed by Rural Development in the Rural Development Uniform System of

Accounts (USoA) for its electric borrowers.

The Uniform System of Accounts promulgated by the Federal Energy Regulatory Commission (FERC) serves as a basis for this part. When new or revised accounting guidance is provided by FERC for electric utilities, Rural Development must review this guidance within the framework of this part for applicability to its borrowers. FERC issued Order 627, Accounting and Reporting of Financial Instruments, Comprehensive Income, Derivatives and Hedging Activities, on October 10, 2002. After reviewing Order 627, Rural Development has determined that this guidance shall be adopted with minor modification. Order 627 established Account 219, Accumulated Other Comprehensive Income, an account number already in use in this part and identified as Other Margins and Equities. Therefore, Rural Development is establishing Account 209, Accumulated Other Comprehensive Income, and modify Section 1767.15(w) Accounting for Other Comprehensive Income, accordingly. All other accounts and instructions are adopted as set forth in Order 627.

On April 9, 2003, FERC issued Order 631, Accounting, Financial Reporting and Rate Filing Requirements for Asset Retirement Obligations. The purpose of this order was the incorporation of the requirements of Statement of Financial Accounting Standard No. 143, Accounting for Asset Retirement Obligations, issued in June 2001 by the Financial Accounting Standards Board. After reviewing Order 631, Rural Development has determined to adopt with minor modification. In addition to a number of changes in instructions and account descriptions to accommodate the prescribed accounting for Asset Retirement Obligations, FERC established new accounts to record transactions associated with asset retirement obligations. One of the new accounts created by Order 631 was Account 403.1, Depreciation Expense for Asset Retirement Costs. This account number is already used within the mandated subaccounts of 403 to represent Depreciation Expense—Steam Production Plant. Therefore, Rural Development is establishing Account 403.8, Depreciation Expense—Asset Retirement Obligations, and modifies paragraph (C) of the description for Account 103, Experimental Electric Plant Unclassified, accordingly. All other accounts and instructions are being adopted as set forth in Order 631 with one exception. Rural Development will not require that separate subsidiary records be maintained for the amount of

accrued cost of removal other than legal obligations for the retirement of plant recorded in Account 108, Accumulated Provision for Depreciation of Electric Utility Plant.

Order 668, Accounting and Financial Reporting for Public Utilities Including Regional Transmission Organizations (RTO), issued by FERC on December 16, 2005, and clarifying Order 668–A, Accounting and Financial Reporting for Public Utilities Including RTOs, issued by FERC on April 20, 2006, amended the USoA and established standard accounting guidance for RTO costs to provide better comparability between utilities and to improve the transparency of financial information pertaining to RTOs along with a better understanding of RTO costs. The new accounts established by FERC in Order 668 and the instructions is being adopted by Rural Development. In 1997, in response to FERC Orders 888 and 889 on open access, Rural Development revised its USoA to require borrowers to allocate employee pensions and benefits expense, as well as payroll taxes and insurance costs to the appropriate functional operations, maintenance, and administrative expense accounts to which labor charges are accrued to make available to management reliable financial information concerning the actual cost of products and services it provides. To ensure comparable results, Rural Development has modified the newly added accounts to accommodate this allocation.

To ensure that borrowers consistently account for their financial operations and to keep pace with the changing environment in which they operate, the Rural Development USoA must be revised and updated from time to time. Rural Development is, therefore, amending and revising several accounting interpretations found in Section 1767.41, Accounting Methods and Procedures required of all Rural Development Borrowers. Interpretation 119, Special Equipment, is revised to conform to guidance provided in a Rural Development letter dated November 14, 2000, providing guidelines for requesting a waiver from the special equipment accounting procedures. Interpretation 136, Storm Damage, is revised to provide new guidance on accounting for reimbursements of storm damage by the Federal Emergency Management Administration. Interpretation 626, Rural Economic Development Loan and Grant Program, is revised to include accounting guidance for recording the default on the repayment of economic development loans made by borrowers to local economic development projects.

Interpretation 404, Consolidated Financial Statements, is revised to clarify the requirements for reporting consolidated subsidiaries on Forms 7, Financial and Statistical Reports for Distribution Borrowers, and Form 12, Financial and Statistical Reports for Power Supply Borrowers and Electric Distribution Borrowers with Generating Facilities. Rural Development is also setting forth a new accounting interpretation that establishes uniform accounting and reporting procedures for Cushion of Credit Accounts which are created by voluntary unsecured payment by a borrower in excess of amounts due and payable.

Bulletin 180–2, Record Retention Recommendations for Rural Development Electric Borrowers, effective June 26, 2003, currently provides the Agency's recommendations for record retention. This final rule codifies these requirements with modifications in subpart D.

The final rule contains a number of other revisions to make administrative corrections to addresses for submitting requests, position titles to update current versions of forms, to change publication names, and to correct errors found in the previously codified version of this part.

### Summary of Comments

A proposed rule entitled, "Accounting Requirements for RUS Electric Program Borrowers," published July 13, 2007, at 72 FR 38511, invited interested parties to submit comments on or before September 11, 2007. The National Rural Electric Cooperative Association (NRECA), Southern Maryland Electric Cooperative, Inc, and the National Rural Utilities Cooperative Finance Corporation (CFC) submitted comments. No comments from any other sources were received. The comments submitted by NRECA represent the views of its members. The following paragraphs address the various topics that were discussed by the commenters.

### Adoption of FERC Order 668

*Comment:* CFC concurred with the Agency's adoption of recent FERC orders and suggested that the Agency incorporate FERC Order 668–A which made technical corrections to the original order and added clarification to certain netting concepts found in Order 668.

*Agency Response:* The Agency agrees with the recommendation and has revised the final rule accordingly.

**Interpretation No. 633, Cushion of Credit**

*Comment:* NRECA, on behalf of its members, expressed concern for what they see as an inappropriate matching of the requirement to record interest income from the cushion of credit account in Account 419, Interest and Dividend Income, with the requirement that the balance in the account be reported as an unapplied payment and netted against long-term debt. This commenter suggests that it may be more appropriate to record the balance in the cushion of credit account as an investment if the requirement remains to record the interest income in Account 419.

*Agency Response:* For purposes of the USoA and for reporting on the Forms 7 and 12, the Agency believes that its treatment for cushion of credit funds and interest earned is best suited for the substance of this transaction. While we recognize that this accounting treatment produces results unique to our borrowers, we expect and anticipate these results during our financial analysis and factor the results into our financial decision making.

However, a valid argument can be made for an alternative presentation on the audited financial statements, particularly if those statements are being used to support efforts to secure outside financing. Therefore, we revised the final rule to permit presentation of the cushion of credit balance as a long-term investment for financial statement presentation while maintaining the current treatment for Forms 7 and 12 reporting.

**Interpretation No. 634, Renewable Energy Credits**

*Comment:* All three commenters expressed dissatisfaction with the accounting guidance provided for Renewable Energy Credits.

*Agency Response:* Because of the controversy currently surrounding recording renewable energy credits, the lack of authoritative guidance from the Federal Energy Regulatory Commission or the Financial Accounting Standards Board, and the relative immaturity of the renewable energy credit market, the Agency has determined that it is best to defer any decisions on this accounting treatment until further information is available. The Agency will proceed with this final rule and address renewable energy credits in a later rulemaking.

**Executive Order 12866**

This final rule has been determined to be not significant for purposes of Executive Order 12866, and therefore

has not been reviewed by the Office of Management and Budget (OMB).

**Regulatory Flexibility Act Certification**

Pursuant to 5 U.S.C. 553(a)(2), this final rule is exempt from the rulemaking requirements of the Administrative Procedure Act (5 U.S.C. 551 *et seq.*), including the requirement to provide prior notice and an opportunity for public comment. Because this final rule is not subject to a requirement to provide prior notice and an opportunity for public comment pursuant to 5 U.S.C. 553, or any other law, the analytical requirements of the Regulatory Flexibility Act (5 U.S.C. 601 *et seq.*) are inapplicable.

**Information Collection and Recordkeeping Requirements**

This final rule contains no new reporting or recordkeeping burdens under OMB control number 0572-0003 that would require approval under the Paperwork Reduction Act of 1995 (44 U.S.C. Chapter 35).

**National Environment Policy Act Certification**

The Administrator of RUS has determined that this final rule will not significantly affect the quality of the human environment as defined by the National Environmental Policy Act of 1969 (42 U.S.C. 4321 *et seq.*). Therefore, this action does not require an environmental impact statement or assessment.

**Catalog of Federal Domestic Assistance**

The program described by this final rule is listed in the Catalog of Federal Domestic Assistance Program under numbers 10.850—Rural Electrification Loans and Loan Guarantees. This catalog is available on a subscription basis from the Superintendent of Documents, the United States Government Printing Office, Washington, DC 20402-9325, (202) 512-1800.

**Executive Order 12372**

This final rule is excluded from the scope of Executive Order 12372, Intergovernmental Consultation, which may require a consultation with State and local officials. See the final rule related notice entitled, "Department Programs and Activities Excluded from Executive Order 12372" (50 FR 47034) advising that Rural Development loans and loan guarantees were not covered by Executive Order 12372.

**List of Subjects in 7 CFR Part 1767**

Electric power, Loan programs—energy, Rural areas, Uniform System of

Accounts, Administrative practice and procedure, and Agriculture.

■ For the reason set forth in the preamble, Rural Development hereby amends 7 CFR chapter XVII as follows:

**PART 1767—ACCOUNTING REQUIREMENTS FOR RUS ELECTRIC BORROWERS**

■ 1. The authority for part 1767 continues to read as follows:

*Authority:* 7 U.S.C. 901 *et seq.*

- 2. Amend § 1767.10 by:
- a. Revising the definition of Cost of removal to read as set forth below;
  - b. Removing the definitions of *Capital lease* and *Operating Lease*; and
  - c. Adding the definitions of *Form 7*; *Form 12*; *Lease Capital*; *Lease Operating*; and *Regional Market* in alphabetical order as set forth below.

The additions and revision read as follows:

**§ 1767.10 Definitions.**

\* \* \* \* \*

*Cost of removal* is the cost of demolishing, dismantling, tearing down or otherwise removing electric plant, including the cost of transportation and handling incidental thereto. It does not include the cost of removal activities associated with asset retirement obligations that are capitalized as part of the tangible long-lived assets that give rise to the obligation. (See Sec. 1767.15(y).

\* \* \* \* \*

*Form 7* is the January 2004 revision (or the revision of any other date which may be specified) of such Form 7, Financial and Statistical Report, or any later revision which shall have been at the time prescribed for use by Rural Development.

*Form 12* is the December 2002 revision (or the revision of any other date which may be specified) of such Form 12, Operating Report—Financial, or any later revision which shall have been at the time prescribed for use by Rural Development.

\* \* \* \* \*

*Lease, capital* is a lease of property used in utility or nonutility operations, which meets one or more of the criteria stated in § 1767.15(s).

*Lease, operating* is a lease of property used in utility or nonutility operations, which does not meet any of the criteria stated in § 1767.15(s).

\* \* \* \* \*

*Regional Market* is an organized energy market operated by a public utility, whether directly or through a

contractual relationship with another entity.

\* \* \* \* \*

■ 3. In § 1767.12, paragraph (a) is revised to read as follows:

**§ 1767.12 Accounting system requirements.**

(a) Each Rural Development electric borrower must maintain and keep its books of accounts and all other books and records that support the entries in such books of accounts in accordance with §§ 1767.13–1767.31.

\* \* \* \* \*

■ 4. In § 1767.13, paragraph (a) is revised to read as set forth below, and paragraph (e) is amended by redesignating paragraph (e)(4) as (e)(5) and adding a new (e)(4) to read as follows:

**§ 1767.13 Departures from the prescribed Rural Development uniform system of accounts.**

(a) No departures are to be made to the prescribed Rural Development USoA without the prior written approval of Rural Development. Requests for departures from the Rural Development USoA shall be addressed, in writing, to the Assistant Administrator, Program Accounting and Regulatory Analysis. (AA–PARA).

\* \* \* \* \*

(e) \* \* \*

(4) A resolution from the borrower's Board of Directors authorizing such action; and

\* \* \* \* \*

■ 5. Section 1767.14 is revised to read as follows:

**§ 1767.14 Interpretations of the Rural Development uniform system of accounts.**

To maintain uniformity in accounting, borrowers must submit questions concerning interpretations of the Rural Development USoA, in writing, to the AA–PARA, for consideration and decision.

(Approved by the Office of Management and Budget under control number 0572–0002).

■ 6. Amend § 1767.15, as follows:

■ a. Revise paragraphs (a)(4), (a)(6), and (t)(2) to read as set forth below;

■ b. Redesignate paragraphs (t)(3) and (t)(4) as (t)(4) and (t)(5), respectively, and add a new paragraph (t)(3) to read as set forth below; and

■ c. Add new paragraphs (v) through (y) to read as set forth below.

The additions and revisions read as follows:

**§ 1767.15 General instructions.**

(a) \* \* \*

(4) No utility shall destroy any such books or records unless the destruction

thereof is permitted by the rules and regulations contained in subpart D of this part.

\* \* \* \* \*

(6) When the utility chooses to recognize the gain in the year of reacquisition as a taxable gain, Account 411.1, Provision for Deferred Income Taxes—Credit, Utility Operating Income, shall be credited with the amount of the related tax effect, such amount to be allocated to the periods affected in accordance with the provisions of Account 190, Accumulated Deferred Income Taxes.

\* \* \* \* \*

(t) \* \* \*

(2) The utility shall record a capital lease as an asset in Account 101.1, Property Under Capital Leases, Account 120.6, Nuclear Fuel Under Capital Leases or Account 121, Nonutility Property;

(3) The utility, as a lessee, shall recognize an asset retirement obligation arising from the plant under a capital lease unless the obligation is recorded as an asset and liability under a capital lease. The utility shall record the asset retirement cost by debiting Account 101.1, Property Under Capital Leases, or Account 120.6, Nuclear Fuel Under Capital Leases, or Account 121, Nonutility Property, as appropriate, and crediting the liability for the asset retirement obligation in Account 230, Asset Retirement Obligations. Asset retirement costs recorded in Account 101.1, Account 120.6, or Account 121 shall be amortized by charging rent expense, or Account 518, Nuclear Fuel Expense, or Account 421, Miscellaneous Nonoperating Income, as appropriate, and crediting a separate subaccount of the account in which the asset retirement costs are recorded. Charges for the periodic accretion of the liability in Account 230, Asset Retirement Obligations, shall be recorded by a charge to Account 411.10, Accretion Expense, for electric utility plant, and Account 421, Miscellaneous Nonoperating Income, for nonutility plant and a credit to Account 230, Asset Retirement Obligations.

\* \* \* \* \*

(v) *Depreciation Accounting.* (1) *Method.* Utilities must use a method of depreciation that allocates in a systematic and rational manner the service value of depreciable property over the service life of the property.

(2) *Service lives.* Estimated useful service lives of depreciable property must be supported by engineering, economic, and other depreciation studies.

(3) *Rate.* Utilities must use percentage rates of depreciation that are based on a method of depreciation that allocates in a systematic and rational manner the service value of depreciable property to the service life of the property. Where composite depreciation rates are used, they should be based on the weighted average estimated useful service lives of the depreciable property comprising the composite group.

(w) *Accounting for other comprehensive income.* (1) Utilities shall record items of other comprehensive income in Account 209, Accumulated Other Comprehensive Income. Amounts included in this account shall be maintained by each category of other comprehensive income. Examples of categories of other comprehensive income include foreign currency items, minimum pension liability adjustments, unrealized gains and losses on available-for-sale type securities and cash flow hedge amounts. Supporting records shall be maintained for Account 209 so that the cumulative amount of other comprehensive income for each item included in this account can be readily identified.

(2) When an item of other comprehensive income enters into the determination of net income in the current or subsequent periods, a reclassification adjustment shall be recorded in Account 209 to avoid double counting of that amount.

(3) When it is probable that an item of other comprehensive income will be included in the development of cost-of-service rates in subsequent periods, that amount of unrealized losses or gains will be recorded in Accounts 182.3, Other Regulatory Assets or 254, Other Regulatory Liabilities, as appropriate.

(x) *Accounting for derivative instruments and hedging activities.* (1) Utilities shall recognize derivative instruments as either assets or liabilities in the financial statements and measure those instruments at fair value, except those falling within recognized exceptions. Normal purchases or sales are contracts that provide for the purchase or sale of goods that will be delivered in quantities expected to be used or sold by the utility over a reasonable period in the normal course of business. A derivative instrument is a financial instrument or other contract with all of the following characteristics:

(i) It has one or more underlyings and a notional amount or payment provision. Those terms determine the amount of the settlement or settlements, and, in some cases, whether or not a settlement is required.

(ii) It requires no initial net investment or an initial net investment

that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

(iii) Its terms require or permit net settlement, can readily be settled net by a means outside the contract, or provide for delivery of an asset that puts the recipient in a position not substantially different from net settlement.

(2) The accounting for the changes in the fair value of derivative instruments depends upon its intended use and designation. Changes in the fair value of derivative instruments not designated as fair value or cash flow hedges shall be recorded in Account 175, Derivative Instrument Assets, or Account 244, Derivative Instrument Liabilities, as appropriate, with the gains recorded in Account 421, Miscellaneous Nonoperating Income, and losses recorded in Account 426.5, Other Deductions.

(3) A derivative instrument may be specifically designated as a fair value or cash flow hedge. A hedge is used to manage risk to price, interest rates, or foreign currency transactions. A company shall maintain documentation of the hedge relationship at the inception of the hedge that details the risk management objective and strategy for undertaking the hedge, the nature of the risk being hedged, and how hedge effectiveness will be determined.

(4) If the utility designates the derivative instrument as a fair value hedge against exposure to changes in the fair value of a recognized asset, liability, or a firm commitment, it shall record the change in fair value of the derivative instrument to Account 176, Derivatives in Instrument Assets—Hedges, or Account 245, Derivative Instrument Liabilities—Hedges, as appropriate, with a corresponding adjustment to the subaccount of the item being hedged. The ineffective portion of the hedge transaction shall be reflected in the same income or expense account that will be used when the hedged item enters into the determination of net income. In the case of a fair value hedge of a firm commitment a new asset or liability is created. As a result of the hedge relationship, the new asset or liability will become part of the carrying amount of the item being hedged.

(5) If the utility designates the derivative instrument as a cash flow hedge against exposure to variable cash flows of a probable forecasted transaction, it shall record changes in the fair value of the derivative instrument in Account 176, Derivative Instrument Assets—Hedges, or Account 245, Derivative Instrument Liabilities—

Hedges, as appropriate, with a corresponding amount in Account 209, Accumulated Other Comprehensive Income, for the effective portion of the hedge. The ineffective portion of the hedge transaction shall be reflected in the same account or expense account that will be used when the hedged item enters into the determination of net income. Amounts recorded in other comprehensive income shall be reclassified into earning in the same period or periods that the hedged forecasted item enters into the determination of net income.

(y) *Accounting for asset retirement obligations.* (1) An asset retirement obligation represents a liability for the legal obligation associated with the retirement of a tangible long-lived asset that a company is required to settle as a result of an existing or enacted law, statute, ordinance, or written or oral contract or by legal construction of a contract under the doctrine of promissory estoppel. An asset retirement cost represents the amount capitalized when the liability is recognized for the long-lived asset that gives rise to the legal obligation. The amount recognized for the liability and an associated asset retirement cost shall be stated at the fair value of the asset retirement obligation in the period in which the obligation is incurred.

(2) The utility shall initially record a liability for an asset retirement obligation in Account 230, Asset Retirement Obligations, and charge the associated asset retirement costs to electric utility plant (including Accounts 101.1 and 120.6), and nonutility plant, as appropriate, related to the plant that gives rise to the legal obligation. The asset retirement cost shall be depreciated over the useful life of the related asset that gives rise to the obligation. For periods subsequent to the initial recording of the asset retirement obligation, a utility shall recognize the period to period changes of the asset retirement obligation that result from the passage of time due to the accretion of the liability and any subsequent measurement changes to the initial liability for the legal obligation recorded in Account 230, Asset Retirement Obligations, as follows:

(i) The utility shall record the accretion of the liability by debiting Account 411.10, Accretion Expense, for electric utility plant, Account 413, Expenses of Electric Plant Leased to Others, for electric plant leased to others, and Account 421, Miscellaneous Nonoperating Income, for nonutility plant and crediting Account 230, Asset Retirement Obligations; and

(ii) The utility shall recognize any subsequent measurement changes of the liability initially recorded in Account 230, Asset Retirement Obligation, for each specific asset retirement obligation as an adjustment of that liability in Account 230 with the corresponding adjustment to electric utility plant, electric plant leased to others, and nonutility plant, as appropriate. The utility shall on a timely basis monitor any measurement changes of the asset retirement obligations.

(3) Gains or losses resulting from the settlement of asset retirement obligations associated with utility plant resulting from the difference between the amount of the liability for the asset retirement obligation included in Account 230, Asset Retirement Obligations, and the actual amount paid to settle the obligation shall be accounted for as follows:

(i) Gains shall be credited to Account 411.6, Gains from Disposition of Utility Plant, and;

(ii) Losses shall be charged to Account 411.7, Losses from Disposition of Utility Plant.

(4) Gains or losses on the settlement of asset retirement obligations associated with nonutility plant resulting from the difference between the amount of the liability for the asset retirement obligation in Account 230, Asset Retirement Obligations, and the amount paid to settle the obligation, shall be accounted for as follows:

(i) Gains shall be credited to Account 421, Miscellaneous Nonoperating Income, and;

(ii) Losses shall be charged to Account 426.5, Other Deductions.

(5) For purposes of analyses a utility shall maintain supporting documentation so as to be able to furnish accurately and expeditiously with respect to each asset retirement obligation the full details of the identity and nature of the legal obligation, the year incurred, the identity of the plant giving rise to the obligation, the full particulars relating to each component and supporting computations related to the measurement of the asset retirement obligation.

■ 7. Amend § 1767.16 as follows:

■ a. Add paragraph (a)(4) to read as set forth below;

■ b. Amend paragraph (c)(17)(i) by revising the value of W to read as set forth below; and,

■ c. Add paragraph (c)(21) to read as set forth below;

The additions and revisions read as follows:

**§ 1767.16 Electric plant instructions.**

(a) \* \* \*

(4) Plant acquired by lease which qualifies as capital lease property under Sec. 1767.15(s), Criteria for Classifying Leases, shall be recorded in Account 101.1, Property Under Capital Leases, or Account 120.6, Nuclear Fuel Under Capital Leases, as appropriate.

\* \* \* \* \*

- (c) \* \* \*
(17) \* \* \*
(i) \* \* \*

W = Average balance in construction work in progress plus nuclear fuel in process of refinement, conversion, enrichment, and fabrication, less asset retirement costs related to plant under construction.

\* \* \* \* \*

(21) Asset retirement. The costs recognized as a result of asset retirement obligations incurred during the construction and testing of utility plant shall constitute a component of construction costs.

\* \* \* \* \*

■ 8. Amend § 1767.18 as follows:

- a. In the subject table, under heading Utility Plant, add entries 108.9, 175, and 176 to read as set forth below;
■ b. Under 101.1 Property Under Capital Leases, revise paragraph C. to read as set forth below;
■ c. Under 103 Experimental Electric Plant Unclassified, amend paragraph C. by revising the first sentence to read as set forth below;
■ d. Under 108 Accumulated Provision for Depreciation of Electric Utility Plant, amend paragraph C. by adding an entry for 108.9 to read as set forth below;
■ e. Revise paragraph A. of 121 Nonutility Property to read as set forth below;
■ f. Revise paragraph A. of 124 Other Investments to read as set forth below;
■ g. Revise 125 Sinking Funds to read as set forth below;
■ h. Revise 126 Depreciation Fund to read as set forth below;
■ i. Revise 128 Other Special Funds to read as set forth below;
■ j. Add Account 175 Derivative Instrument Assets to read as set forth below;
■ k. Add Account 176 Derivative Instrument Assets—Hedges to read as set forth below.
■ l. Revise paragraph B. of 182.3 Other Regulatory Assets to read as set forth below;

The additions and revisions read as follows:

§ 1767.18 Assets and other debits.

\* \* \* \* \*

Utility Plant

\* \* \* \* \*

108.9 Accumulated Provision for Depreciation of Asset Retirement Costs
175 Derivative Instrument Assets
176 Derivative Instrument Assets—Hedges
\* \* \* \* \*

101.1 Property Under Capital Leases

\* \* \* \* \*

C. Records shall be maintained with respect to each capital lease reflection:
(1) Name of lessor, (2) basic details of lease, (3) terminal date, (4) original cost or fair market value of property leased, (5) future minimum lease payments, (6) executory costs, (7) present value of minimum lease payments, (8) the amount representing interest and the interest rate used, and (9) expenses paid. Records shall also be maintained for plant under a lease, to identify the asset retirement obligation and cost originally recognized for each lease and the periodic charges and credits made to the asset retirement obligations and asset retirement costs.

\* \* \* \* \*

103 Experimental Electric Plant Unclassified

\* \* \* \* \*

C. The depreciation on property in this account shall be charged to Account 403.8, Depreciation Expense, for asset retirement costs, as appropriate, and credited to Account 108, Accumulated Provision for Depreciation of Electric Utility Plant. \* \* \*

\* \* \* \* \*

108 Accumulated Provision for Depreciation of Electric Utility Plant

\* \* \* \* \*

C. Account 108 shall be subaccounted as follows

\* \* \* \* \*

108.9 Accumulated Provision for Depreciation of Asset Retirement Costs

\* \* \* \* \*

121 Nonutility Property

A. This account shall include the book cost of land, structure, and equipment or other tangible or intangible property owned by the utility, but used in utility service and not properly includible in Account 105, Electric Plant Held for Future Use. This account shall also include, where applicable, amounts recorded for asset retirement costs associated with nonutility plant.

\* \* \* \* \*

124 Other Investments

A. This account shall include the book cost of investments in securities issued or assumed by nonassociated companies, investment advances to such companies, and any investments not accounted for elsewhere. This account shall also include unrealized holding gains and losses on trading and available-for-sale types of security investments. Include also the offsetting entry to the recording of amortization of discount or premium on interest bearing investments. (See Account 419, Interest and Dividend Income.)

\* \* \* \* \*

125 Sinking Funds

This account shall include the amount of cash and book cost of investments held in sinking funds. This account shall also include unrealized holding gains and losses on trading and available-for-sale types of investments. A separate account, with appropriate title, shall be kept for each sinking fund. Transfers from this account to special deposit accounts, may be as necessary for the purpose of paying matured sinking fund obligations, or obligations called for redemption but not presented, or the interest thereon.

126 Depreciation Fund

This account shall include the amount of cash and the book cost of investments which have been segregated in a special fund for the purpose of identifying such assets with the accumulated provisions for depreciation. This account shall also include unrealized holding gains and losses on trading and available-for-sale types of security investments.

128 Other Special Funds

This account shall include the amount of cash and book cost of investments which have been segregated in special funds for insurance, employee pensions, savings, relief, hospital, and other purposes not provided for elsewhere. This account shall also include unrealized holding gains and losses on trading and available-for-sale types of security investments. A separate account, with appropriate title, shall be kept for each fund.

Note: Amounts deposited with a trustee under the terms of an irrevocable trust agreement for pensions or other employee benefits shall not be included in this account.

\* \* \* \* \*

175 Derivative Instrument Assets

This account shall include the amounts paid for derivative instruments, and the change in the fair value hedges. Account 421, Miscellaneous Nonoperating Income, shall be credited or debited, as appropriate, with the corresponding amount of the change in the fair value of the derivative instrument.

176 Derivative Instrument Assets—Hedges

A. This account shall include the amounts paid for derivative instruments, and the change in the fair value of derivative instrument assets designated by the utility as cash flow or fair value hedges.

B. When a utility designates a derivative instrument asset as a cash flow hedge it will record the change in the fair value of the derivative instrument in this account with a concurrent charge to Account 209, Accumulated Other Comprehensive Income, with the effective portion of the gain or loss. The ineffective portion of the cash flow hedge shall be charged to the same income or expense account that will be used when the hedged item enters into the determination of net income.

C. When a utility designates a derivative instrument as a fair value hedge it shall record the change in the fair value of the derivative instrument in this account with a concurrent charge to a subaccount of the

asset or liability that carries the item being hedged. The ineffective portion of the fair value hedge shall be charged to the same income or expense account that will be used when the hedged item enters into the determination of net income.

\* \* \* \* \*

**182.3 Other Regulatory Assets**

\* \* \* \* \*

B. The amounts included in this account are to be established by those charges which would have been included in net income, or accumulated other comprehensive income, determinations in the current period under the general requirements of the Uniform System of Accounts but for it being probable that such items will be included in a different period(s) for purposes of developing the rates that the utility is authorized to charge for its utility services. When specific identification of the particular source of a regulatory asset cannot be made, such as in plant phase-ins, rate moderation plans, or rate levelization plans, Account 407.4, Regulatory Credits, shall be credited. The amounts recorded in this account are generally to be charged, concurrently with the recovery of the amounts in rates, to the same account that would have been charged if included in income when incurred, except all regulatory assets established through the use of Account 407.4 shall be charged to Account 407.3, Regulatory Debits, concurrent with the recovery of the amounts in rates.

\* \* \* \* \*

- 9. Amend § 1767.19 as follows:
  - a. In the subject table, under *Margins and Equities*, add an entry for 209 to read as set forth below;
  - b. In the subject table, under *Long-Term Debt*, add an entry for 224.18 to read as set forth below;
  - c. Add a new entry for 209 Accumulated Other Comprehensive Income to read as set forth below;
  - d. In 224 Other Long-Term Debt, paragraph B. subject index, add an entry for subaccount 224.18 to read as set forth below;
  - e. Add 224.18 Other Long-Term Debt Grant Funds to read as set forth below;
  - f. In 229 Account Accumulated Provision for Rate Refunds, add an entry under Current and Accrued Liabilities to read as set forth below;
  - g. Add 230 Asset Retirement Obligations to read as set forth below;
  - h. Add 244 Derivative Instrument Liabilities to read as set forth below;
  - i. Add 245 Derivative Instrument Liabilities-Hedges to read as set forth below, and
  - j. Revise paragraph B. of 254 Other Regulatory Liabilities to read as set forth below.

The additions and revisions read as follows:

**§ 1767.19 Liabilities and other credits.**

\* \* \* \* \*

**Liabilities and Other Credits**

*Margins and Equities*

\* \* \* \* \*

**209 Accumulated Other Comprehensive Income**

\* \* \* \* \*

*Long-Term Debt*

**224.18 Other Long-Term Debt—Grant Funds**

\* \* \* \* \*

**209 Accumulated Other Comprehensive Income**

A. This account shall include revenues, expenses, gains, and losses that are properly includable in other comprehensive income during the period. Examples of other comprehensive income include foreign currency items, minimum pension liability adjustment, unrealized gains and losses on certain investments in debt and equity securities, and cash flow hedges. Records supporting the entries to this account shall be maintained so that the utility can furnish the amount of other comprehensive income for each item included in this account.

B. This account shall also be debited or credited, as appropriate, with amounts of accumulated other comprehensive income that have been included in the determination of net income during the period and in accumulated other comprehensive income in prior periods. Separate records for each category of items shall be maintained to identify the amount of the reclassification adjustments from accumulated other comprehensive income to earning made during the period.

\* \* \* \* \*

**224 Other Long-Term Debt**

\* \* \* \* \*

B. \* \* \*

**224.18 Other Long-Term Debt—Grant Funds**

\* \* \* \* \*

**224.18 Other Long-Term Debt—Grant Funds**

This account shall include the total amount of Rural Development grant funds awarded for rural economic development purposes, which are subject to repayment at the conclusion of the project. (See Sec. 1767.41, Interpretation 626, Rural Economic Development Loan and Grant Program.)

\* \* \* \* \*

**Current and Accrued Liabilities**

\* \* \* \* \*

**230 Asset Retirement Obligations**

A. This account shall include the amount of liabilities for the recognition of asset retirement obligations related to electric utility plant and nonutility plant that gives rise to the obligations. This account shall be credited for the amount of the liabilities for asset retirement obligations with amounts charged to the appropriate electric utility plant accounts or nonutility plant account to record the related asset retirement costs.

B. The utility shall charge the accretion expense to Account 411.10, Accretion Expense, for electric utility plant, Account 413, Expenses for Electric Plant Leased to Others, for electric plant leased to others, or Account 421, Miscellaneous Nonoperating Income, for nonutility plant, as appropriate, and credit Account 230, Asset Retirement Obligations.

C. This account shall be debited with amounts paid to settle the asset retirement obligations recorded herein.

D. The utility shall clear from this account any gains or losses resulting from the settlement of asset retirement obligations in accordance with the instruction prescribed in Sec. 1767.15(y).

\* \* \* \* \*

**244 Derivative Instrument Liabilities**

This account shall include the change in the fair value of all derivative instrument liabilities not designated as cash flow or fair value hedges. Account 426, Other Deductions, shall be debited or credited as appropriate with the corresponding amount of the change in the fair value of the derivative instrument.

**245 Derivative Instrument Liabilities—Hedges**

A. This account shall include the change in the fair value of derivative instrument liabilities designated by the utility as cash flow or fair value hedges.

B. A utility shall record the change in the fair value of a derivative instrument liability related to a cash flow hedge in this account, with a concurrent charge to Account 209, Accumulated Other Comprehensive Income, with the effective portion of the derivative's gain or loss. The ineffective portion of the cash flow hedge shall be charged to the same income or expense account that will be used when the hedged item enters into the determination of net income.

C. A utility shall record the change in the fair value of a derivative instrument liability related to a fair value hedge in this account, with a concurrent charge to a subaccount of the asset or liability that carries the item being hedged. The ineffective portion or the fair value hedge shall be charged to the same income or expense account that will be used when the hedged item enters into the determination of net income.

\* \* \* \* \*

**254 Other Regulatory Liabilities**

\* \* \* \* \*

B. The amounts included in this account are to be established by those credits which would have been included in net income, or accumulated other comprehensive income, determinations in the current period under the general requirements of the Uniform System of Accounts but for it being probable that: (1) Such items will be included in a different period(s) for purposes of developing the rates that the utility is authorized to charge for its utility services; or (2) refunds to customers, not provided for in other accounts, will be required. When specific identification of the particular source of the regulatory liability cannot be made or when the liability arises from revenues collected

pursuant to tariffs on file at a regulatory agency, Account 407.3, Regulatory Debits, shall be debited. The amounts recorded in this account generally are to be credited to the same account that would have been credited if included in income when earned except: (1) All regulatory liabilities established through the use of Account 407.3 shall be credited to Account 407.4, Regulatory Credits; and (2) in the case of refunds, a cash account or other appropriate account should be credited when the obligation is satisfied.

\* \* \* \* \*

- 10. Amend 1767.20 as follows:
a. Revise the introductory text;
b. In the table of contents, under Steam Production, add an entry for 317;
c. In the table of contents, under Nuclear Production, add an entry for 326;
d. In the table of contents, under Hydraulic Production, add an entry for 337;
e. In the table of contents, under Other Production, add an entry for 347;
f. In the table of contents, under Transmission Plant, add an entry for 359.1;
g. In the table of contents, under Distribution Plant, add an entry for 374;
h. In the table of contents, add new title Regional Transmission Market Operation Plant, and entries for 380, 381, 382, 383, 384, 385, and 386;
i. In the table of contents, under General Plant, add an entry for 399.1;
j. Add a new entry for 317 Asset Retirement costs for Steam Production Plant;
k. Add a new entry for 326 Retirement Costs for Nuclear Production Plant;
l. Add a new entry for 337 Asset Retirement costs for Hydraulic Production Plant;
m. Add a new entry for 347 Asset Retirement Costs for Other Production Plant;
n. Add a new entry for subaccount 359.1 Asset Retirement Costs for Transmission Plant;
o. Add a new entry for 374 Asset Retirement Costs for Distribution Plant;
p. Under new account title Regional Transmission Market Operation Plant, add new entries for 380, 381, 382, 383, 384, 385, and 386;
q. Add a new entry for subaccount 399.1 Asset Retirement Costs for General Plant.

The revisions and additions read as follows:

§ 1767.20 Plant accounts

The plant accounts identified in this section shall be used by all Rural Development borrowers.

\* \* \* \* \*

Production Plant

Steam Production

\* \* \* \* \*

317 Asset Retirement Costs for Steam Production Plant

Nuclear Production

\* \* \* \* \*

326 Asset Retirement Costs for Nuclear Production Plant

Hydraulic Production

\* \* \* \* \*

337 Asset Retirement Costs for Hydraulic Production Plant

Other Production

\* \* \* \* \*

347 Asset Retirement Costs for Other Production Plant

Transmission Plant

\* \* \* \* \*

359.1 Asset Retirement Costs for Transmission Plant

Distribution Plant

\* \* \* \* \*

374 Asset Retirement Costs for Distribution Plant

Regional Transmission Market Operation Plant

380 Land and Land Rights

381 Structures and Improvements

382 Computer Hardware

383 Computer Software

384 Communication Equipment

385 Miscellaneous Regional Transmission and Market Operation Plant

386 Asset Retirement Costs for Regional Transmission and Market Operation Plant

General Plant

\* \* \* \* \*

399.1 Asset Retirement Costs for General Plant

\* \* \* \* \*

Production Plant

Steam Production

\* \* \* \* \*

317 Asset Retirement Costs for Steam Production Plant

This account shall include asset retirement costs on plant included in the steam production function.

\* \* \* \* \*

Nuclear Production

\* \* \* \* \*

326 Asset Retirement Costs for Nuclear Production Plant

This account shall include asset retirement costs on plant included in the nuclear production function.

\* \* \* \* \*

Hydraulic Production

\* \* \* \* \*

337 Asset Retirement Costs for Hydraulic Production Plant

This account shall include asset retirement costs on plant included in the hydraulic production function.

\* \* \* \* \*

Other Production

\* \* \* \* \*

347 Asset Retirement Costs for Other Production Plant

This account shall include asset retirement costs on plant included in the other production function.

\* \* \* \* \*

Transmission Plant

\* \* \* \* \*

359.1 Asset Retirement Costs for Transmission Plant

This account shall include asset retirement costs on plant included in the transmission plant function.

\* \* \* \* \*

Distribution Plant

374 Asset Retirement Costs for Distribution Plant

This account shall include asset retirement costs on plant included in the distribution plant function.

Regional Transmission and Market Operation Plant

380 Land and Land Rights

This account shall include the cost of land and land rights used in connection with regional transmission and market operations.

381 Structures and Improvements

This account shall include the cost in place of structures and improvement used for regional transmission and market operations.

382 Computer Hardware

This account shall include the cost of computer hardware and miscellaneous information technology equipment to provide scheduling, system control and dispatching, system planning, standards development, market monitoring, and market administration activities. Records shall be maintained identifying to the maximum extent practicable computer hardware owned and used for:

- (1) Scheduling, system control and dispatching, (2) System planning and standards development, and (3) Market monitoring and market administration activities.

Items

- 1. Personal computers

2. Servers
3. Workstations
4. Energy Management System (EMS) hardware
5. Supervisory Control and Data Acquisition (SCADA) system hardware
6. Peripheral equipment
7. Networking components

**383 Computer Software**

This account shall include the cost of off-the-shelf and in-house developed software purchased and used to provide scheduling, system control and dispatching, system planning, standards development, market monitoring, and market administration activities. Records shall be maintained identifying to the maximum extent practicable the cost of software used for:

- (1) Scheduling, system control and dispatching,
- (2) System planning and standards development, and
- (3) Market monitoring and market administration activities.

*Items*

1. Software licenses
2. User interface software
3. Modeling software
4. Database software
5. Tracking and monitoring software
6. Energy Management System (EMS) software
7. Supervisory Control and Data Acquisition (SCADA) system software
8. Evaluation and assessment system software
9. Operating, planning and transaction scheduling software
10. Reliability applications
11. Market application software

**384 Communication Equipment**

This account shall include the cost of communication equipment owned and used to acquire or share data and information used to control and dispatch the system.

*Items*

1. Fiber optic cable
2. Remote terminal units
3. Microwave towers
4. Global Positioning System (GPS) equipment
5. Servers
6. Workstations
7. Telephones

**385 Miscellaneous Regional Transmission and Market Operation Plant**

This account shall include the cost of regional transmission and market operation plant and equipment not provided for elsewhere.

**386 Asset Retirement Costs for Regional Transmission and Market Operation Plant**

This account shall include asset retirement costs on regional transmission and market operations plant and equipment.

\* \* \* \* \*

**General Plant**

\* \* \* \* \*

**399.1 Asset Retirement Costs for General Plant**

This account shall include asset retirement costs on plant included in the general plant function.

\* \* \* \* \*

■ 11. Section 1767.21 is amended as follows:

- a. Add account titles for 403.8, 403.9 and 411.10 to read as set forth below;
- b. Add entries for 403.8 and 403.9 under 403 Depreciation Expense to read as set forth below;
- c. Amend 411.6 by designating the current text as paragraph A. and adding paragraph B. to read as set forth below;
- d. Amend 411.7 by designating the current text as paragraph A. and adding paragraph B. to read as set forth below; and
- e. Add an entry for 411.10 to read as set forth below.

**§ 1767.21 Operating Income.**

\* \* \* \* \*

**Utility Operating Income**

\* \* \* \* \*

403.8 Depreciation Expense-Asset Retirement Costs

403.9 Depreciation Expense-Regional Transmission and Market Operation Plant

\* \* \* \* \*

411.10 Accretion Expense

\* \* \* \* \*

**Utility Operating Income**

\* \* \* \* \*

**403 Depreciation Expense**

\* \* \* \* \*

C. \* \* \*

**403.8 Depreciation Expense-Asset Retirement Costs**

**403.9 Depreciation Expense-Regional Transmission and Market Operation Plant**

\* \* \* \* \*

**411.6 Gains From Disposition of Utility Plants**

\* \* \* \* \*

B. The utility shall record in this account gains resulting from the settlement of asset retirement obligations related to utility plant in accordance with the accounting prescribed in Sec. 1767.15(y).

**411.7 Losses From Disposition of Utility Plant**

\* \* \* \* \*

B. The utility shall record in this account losses resulting from the settlement of asset retirement obligations related to utility plant in accordance with the accounting prescribed in Sec. 1767.15(y).

**411.10 Accretion Expense**

This account shall be charged for accretion expense on the liabilities associated with

asset retirement obligations included in Account 230, Asset Retirement Obligations, relating to electric utility plant.

■ 12. Section 1767.22 is amended as follows:

- a. Amend Account 421, Miscellaneous Nonoperating Income, by adding items (4) through (6) to read as set forth below;
- b. Amend Account 426.5, Other Deductions, by adding item (6) to read as set forth below.

**§ 1767.22 Other income and deductions.**

\* \* \* \* \*

**421 Miscellaneous Nonoperating Income**

\* \* \* \* \*

4. This account shall include the accretion expense on the liability for an asset retirement obligation included in Account 230, Asset Retirement Obligations, related to nonutility plant.

5. This account shall include the depreciation expense for asset retirement costs related to nonutility plant.

6. The utility shall record in this account gains resulting from the settlement of asset retirement obligations related to nonutility plant in accordance with the accounting prescribed in § 1767.15(y).

\* \* \* \* \*

**426.5 Other Deductions**

\* \* \* \* \*

6. The utility shall record in this account losses resulting from the settlement of asset retirement obligations related to nonutility plant in accordance with the accounting prescribed in § 1767.15(y).

■ 13. Amend § 1767.23 by revising Account 432 to read as follows:

**§ 1767.23 Interest charges.**

\* \* \* \* \*

**432 Allowance for Borrowed Funds Used During Construction—Credit**

This account shall include concurrent credits for allowance for borrowed funds used during construction, not to exceed amounts computed in accordance with the formula prescribed in § 1767.16(c)(17).

**Note:** This account shall not be recorded in Account 427.3, Interest Charged to Construction—Credit.

■ 14. Amend § 1767.26 as follows:

- a. Add 456.1, 457.1, and 457.2 to the subject table to read as set forth below;
- b. Amend 456, Other Electric Revenues, by removing paragraph 5; and redesignating paragraph 6 as 5; and
- c. Add entries for 456.1, 457.1 and 457.2 to read as set forth below. The additions read as follows:

**§ 1767.26 Operating revenue.**

\* \* \* \* \*

**Operating Revenue**

*Sales of Electricity*

\* \* \* \* \*

456.1 Revenues from Transmission of Electricity of Others

457.1 Regional Transmission Service Revenues

457.2 Miscellaneous Revenue  
\* \* \* \* \*

**456.1 Revenues From Transmission of Electricity of Others**

This account shall include revenues from transmission of electricity of others over transmission facilities of the utility.

**457.1 Regional Transmission Service Revenues**

This account shall include revenues derived from providing scheduling, system control and dispatching services. Include also in this account reimbursements for system planning, standards development, and market monitoring and market compliance activities. Records shall be maintained so as to show: (1) The services supplied and revenues received from each customer and (2) the amounts billed by tariff or specified rates.

**457.2 Miscellaneous Revenues**

This account shall include revenues and reimbursements for costs incurred by regional transmission service providers not provided for elsewhere. Records shall be maintained so as to show: (1) The services supplied and revenues received from each customer, and (2) the amounts billed by tariff or specified rates.

■ 15. Amend § 1767.27 as follows:

■ a. Add new accounts 561.1 through 561.8 to the subject index immediately following entry 560, Operations Supervision and Engineering, to read as set forth below;

■ b. Add new accounts 569.1 through 569.4 to the subject index immediately following entry 569, Maintenance of Structures, to read as set forth below;

■ c. Add new accounts 575.1 through 575.8 to the subject index under a new account title *Regional Market Expense (Operations)* immediately following entry 573, Maintenance of Miscellaneous Transmission Plant; to read as set forth below;

■ d. Add new accounts 576.1 through 576.5 to the subject index under a new account title *Regional Market Expense (Maintenance)* immediately following entry 575.8, Rents, to read as set forth below;

■ e. Amend 555 Purchased Power by adding a note following paragraph B. to read as set forth below;

■ f. Amend 556 System Control Load Dispatching by revising the introductory text to read as set forth below;

■ g. Remove Account 561 Load Dispatching;

■ h. Add new accounts to descriptions for 561.1 through 561.8 to read as set forth below;

■ i. Add new accounts and descriptions for 569.1 through 569.4 to read as set forth below;

■ j. Add new accounts and descriptions for 575.1 through 575.8 to read as set forth below; and

■ k. Add new accounts and descriptions for 576.1 through 576.5 to read as set forth below.

The additions and revisions read as follows:

**§ 1767.27 Operation and maintenance expenses.**

\* \* \* \* \*

**Transmission Expenses**

(Operations)

\* \* \* \* \*

561.1 Load Dispatch-Reliability

561.2 Load Dispatch-Monitor and Operate Transmission System

561.3 Load Dispatch-Transmission Service and Scheduling

561.4 Scheduling, System Control and Dispatching Services

561.5 Reliability, Planning and Standards Development

561.6 Transmission Service Studies

561.7 Generation Interconnection Studies

561.8 Reliability Planning and Standards Development Services

\* \* \* \* \*

(Maintenance)

\* \* \* \* \*

569.1 Maintenance of Computer Hardware

569.2 Maintenance of Computer Software

569.3 Maintenance of Communication Equipment

569.4 Maintenance of Miscellaneous Regional Transmission Plant

\* \* \* \* \*

**Regional Market Expenses**

(Operation)

575.1 Operation Supervision

575.2 Day-Ahead and Real-Time Market Administration

575.3 Transmission Rights Market Administration

575.4 Capacity Market Administration

575.5 Ancillary Services Market Administration

575.6 Market Monitoring and Compliance

575.7 Market Administration, Monitoring and Compliance Services

575.8 Rents

(Maintenance)

576.1 Maintenance of Structures and Improvements

576.2 Maintenance of Computer Hardware

576.3 Maintenance of Computer Software

576.4 Maintenance of Communication Equipment

576.5 Maintenance of Miscellaneous Market Operation Plant

\* \* \* \* \*

**555 Purchased Power**

\* \* \* \* \*

**Note:** The records supporting this account shall provide information pertaining to the purchase of power from renewable energy sources.

**556 System Control and Load Dispatching**

This account shall include the cost of labor, employee pensions and benefits, social security and other payroll taxes, injuries and damages, property insurance, property taxes, and expenses incurred in load dispatching activities for system control. Utilities having an interconnected electric system or operating under a central authority which controls the production and dispatching of electricity may apportion these costs to this account and transmission expense Account 561.1 through 561.4, and Account 581, Load Dispatching—Distribution.

\* \* \* \* \*

**561.1 Load Dispatch—Reliability**

This account shall include the cost of labor, employee pensions and benefits, social security and other payroll taxes, injuries and damages, property insurance, property taxes, materials used, and expenses incurred by a regional transmission service provider or other transmission provider to manage the reliability coordination function as specified by the North American Electric Reliability Council (NERC) and individual reliability organizations. These activities shall include performing current and next day reliability analysis. This account shall include the costs incurred to calculate load forecasts, and performing contingency analysis.

**561.2 Load Dispatch—Monitor and Operate Transmission System**

This account shall include the cost of labor, employee pensions and benefits, social security and other payroll taxes, injuries and damages, property insurance, property taxes, materials used, and expenses incurred by a regional transmission service provider or other transmission provider to monitor, assess and operate the power system and individual transmission facilities in real-time to maintain safe and reliable operation of the transmission system. This account shall also include the expense incurred to manage transmission facilities to maintain system reliability and to monitor real-time flows and direct actions according to regional plans and tariffs if necessary.

*Items*

1. Receive and analyze outage requests
2. Reschedule outage plans
3. Monitor solution quality field data values, providing model updates to NERC and coordinating network model changes across all systems
4. Conduct operating training related to NERC Certification
5. Monitor generation resources and communicate expected dispatch actions
6. Ensure ancillary service requirements are met
7. Directing switching
8. Controlling system voltages
9. Obtaining reports on the weather and special events
10. Preparing operating reports and data for billing and budget purposes

**561.3 Load Dispatch—Transmission Service and Scheduling**

This account shall include the cost of labor, employee pensions and benefits, social security and other payroll taxes, injuries and damages, property insurance, property taxes, materials used, and expenses incurred by a regional transmission service provider or other transmission provider to process hourly, daily, weekly and monthly transmission service requests using an automated system such as an Open Access Same-Time Information System (OASIS). It shall include the expenses incurred to operate the automated transmission service request system and to monitor the status of all scheduled energy transactions.

**561.4 Scheduling, System Control and Dispatching Services**

This account shall include the costs billed to the transmission owner, load serving entity or generator for scheduling, system control and dispatching service. Include in this account service billings for system control to maintain the reliability of the transmission area in accordance with reliability standards, maintaining defined voltage profiles, and monitoring operations of the transmission facilities.

**561.5 Reliability, Planning and Standards Development**

This account shall include the cost of labor, employee pensions and benefits, social security and other payroll taxes, injuries and damages, property insurance, property taxes, materials used, and expenses incurred for the system planning of the interconnected bulk electric transmission system within a planning authority area.

*Items*

1. Developing and maintaining transmission system models to evaluate transmission system performance.
2. Maintaining and applying methodologies and tools for the analysis and simulation of the transmission systems for the assessment and development of transmission expansion plans.
3. Assessing, developing and documenting transmission expansion plans.
4. Maintaining transmission system models (steady-state, dynamics, and short circuit).
5. Collecting transmission information and transmission facility characteristics and ratings.
6. Notifying participants of any planned transmission changes that may impact their facilities.
7. Developing and reporting on transmission expansion plans for assessment and compliance with reliability standards.
8. Developing reliability standards for the planning and operation of the interconnected bulk electric transmission systems that serve the United States, Canada and Mexico.
9. Developing criteria and certification procedures for reliability authorities, transmission operators and others.
10. Outside services employed.

**Note:** The cost of supervision, customer records and collection expenses, administrative and general salaries, regulatory commission expenses, general

advertising, and rents shall be charged to the customer accounts, service, administrative and general expense accounts contained in the Uniform System of Accounts.

**561.6 Transmission Service Studies**

This account shall include the cost of labor, employee pensions and benefits, social security and other payroll taxes, injuries and damages, property insurance, property taxes, materials used, and expenses incurred to conduct generation interconnection studies for proposed interconnections with the transmission system. Detailed records shall be maintained for each study undertaken and all reimbursements received for conducting such a study.

**561.7 Generation Interconnection Studies**

This account shall include the cost of labor, employee pensions and benefits, social security and other payroll taxes, injuries and damages, property insurance, property taxes, materials used, and expenses incurred to conduct generation interconnection studies for proposed interconnections with the transmission system. Detailed records shall be maintained for each study undertaken and all reimbursements received for conducting such a study.

**561.8 Reliability Planning and Standards Development Services**

This account shall include the costs billed to the transmission owner, load serving entity, or generator for system planning of the interconnected bulk electric transmission service provider for system reliability and resource panning to develop long-term strategies to meet customer demand and energy requirements. This account shall also include fees and expenses for outside services incurred by the regional transmission service provider and billed to the load serving entity, transmission owner or generator.

\* \* \* \* \*

**569.1 Maintenance of Computer Hardware**

This account shall include the cost of labor, employee pensions and benefits, social security and other payroll taxes, injuries and damages, materials used and expenses incurred in the maintenance of computer hardware serving the transmission function.

**569.2 Maintenance of Computer Software**

This account shall include the cost of labor, employee pensions and benefits, social security and other payroll taxes, injuries and damages, materials used and expenses incurred for annual computer software license renewals, annual software update services and the cost of ongoing support for software products serving the transmission function.

*Items*

1. Telephone Support
2. Onsite support
3. Software updates and minor revisions

**569.3 Maintenance of Communication Equipment**

This account shall include the cost of labor, employee pensions and benefits, social

security and other payroll taxes, injuries and damages, materials used and expenses incurred in the maintenance of communication equipment serving the transmission function.

**569.4 Maintenance of Miscellaneous Regional Transmission Plant**

This account shall include the cost of labor, employee pensions and benefits, social security and other payroll taxes, injuries and damages, materials used and expenses incurred in the maintenance of miscellaneous regional transmission plant serving the transmission function.

\* \* \* \* \*

**Regional Market Expenses**

(Operational)

**575.1 Operation Supervision**

This account shall include the cost of labor, employee pensions and benefits, social security and other payroll taxes, injuries and damages, and expenses incurred in the general supervision and direction of the regional energy markets.

**575.2 Day-Ahead and Real-Time Market Administration**

This account shall include the cost of labor, employee pensions and benefits, social security and other payroll taxes, injuries and damages, and expenses incurred to facilitate the Day-Ahead and Real-Time markets. This account shall also include the costs incurred to manage the real-time deployment of resources to meet generation needs and to provide capacity adequacy verification. Include in this account the costs incurred to maintain related sections of the tariff, market rules, operating procedures, and standards and coordinating with neighboring areas.

*Items*

1. Consultant fees and expenses
2. System record and report forms
3. Meals, traveling and incidental expenses

**Note:** The cost of supervision, customer records and collection expenses, administrative and general salaries, regulatory commission expenses, general advertising, and rents shall be charged to the customer accounts, service, administrative and general expense accounts contained in the Uniform System of Accounts.

**575.3 Transmission Rights Market Administration**

This account shall include the cost of labor, employee pensions and benefits, social security and other payroll taxes, injuries and damages, and expenses incurred to manage the allocation and auction of transmission rights.

**575.4 Capacity Market Administration**

This account shall include the cost of labor, employee pensions and benefits, social security and other payroll taxes, injuries and damages, and expenses incurred to manage the allocation of capacity rights.

**575.5 Ancillary Services Market Administration**

This account shall include the cost of labor, employee pensions and benefits, social

security and other payroll taxes, injuries and damages, and expenses incurred to manage all other ancillary services market functions

**575.6 Market Monitoring and Compliance**

This account shall include the cost of labor, employee pensions and benefits, social security and other payroll taxes, injuries and damages, and expenses incurred to review market data and operational decisions for compliance with market rules. It shall also include the costs incurred to interface with external market monitors.

**575.7 Market Administration, Monitoring and Compliance Services**

This account shall include the cost billed to the transmission owner, load serving entity or generator for market administration, monitoring and compliance services.

**575.8 Rents**

This account shall include all rents of property of others used, occupied, or operated in connection with market administration and monitoring. (See Sec. 1767.17(c).) (Maintenance)

**576.1 Maintenance of Structures and Improvements**

This account shall include the cost of labor, employee pensions and benefits, social security and other payroll taxes, injuries and damages, and expenses incurred in the maintenance of structures used in market administration and monitoring. (See Sec. 1767.17(b).)

**576.2 Maintenance of Computer Hardware**

This account shall include the cost of labor, employee pensions and benefits, social security and other payroll taxes, injuries and damages, and expenses incurred in the maintenance of computer hardware used in market administration and monitoring.

**576.3 Maintenance of Computer Software**

This account shall include the cost of labor, employee pensions and benefits, social security and other payroll taxes, injuries and damages, and expenses incurred for annual computer software license renewals, annual software update services and the cost of ongoing support for software products used in market administration and monitoring.

*Items*

1. Telephone support
2. Onsite support
3. Software updates and minor revisions

**576.4 Maintenance of Communication Equipment**

This account shall include the cost of labor, employee pensions and benefits, social security and other payroll taxes, injuries and damages, and expenses incurred in the maintenance of communication equipment used in market administration and monitoring.

**576.5 Maintenance of Miscellaneous Market Operation Plant**

This account shall include the cost of labor, employee pensions and benefits, social security and other payroll taxes, injuries and damages, and expenses incurred in the

maintenance of miscellaneous market operation plant used in market administration and monitoring.

\* \* \* \* \*

- 16. Amend § 1767.41, as follows:
  - a. In the Numerical Index, add the entry for 633 in numerical order to read as set forth;
  - b. In the subject matter Index, add Cushion of Credit items in alphabetical order to read as set forth below;
  - c. Revise 119 Special Equipment to read as set forth below;
  - d. Amend 136 Storm Damage by removing paragraph d. and revising paragraphs b. and c. and the undesignated paragraph before the table to read as set forth below;
  - e. Amend 404 Consolidate Financial Statement by revising the undesignated concluding paragraph to read as set forth below;
  - f. Revise 626 Rural Economic Development Loan and Grant Program to read as set forth below;
  - g. Add a new description for 633 for Cushion of Credit to read as set forth below.

The additions and revisions read as follows:

**§ 1767.41 Accounting methods and procedure required of all RUS borrowers.**

\* \* \* \* \*

| Number    | Title              |
|-----------|--------------------|
| 633 ..... | Cushion of Credit. |

**SUBJECT MATTER INDEX**

|                         |   |   |   |   | Number |
|-------------------------|---|---|---|---|--------|
| *                       | * | * | * | * |        |
| C                       |   |   |   |   |        |
| *                       | * | * | * | * |        |
| Cushion of Credit ..... |   |   |   |   | 633    |
| *                       | * | * | * | * |        |
|                         |   |   |   |   |        |
| *                       | * | * | * | * |        |

**119 Special Equipment**

Special Equipment items are classified as such because they are continually being moved from one location to another due to load changes and maintenance practices. The USoA provides accounting that differs from that used for other types of materials. The cost, new, of special equipment items shall be capitalized at the time of purchase; it shall not be charged to Account 154 as is the case with other materials. The first installation cost, as well as all incidental costs necessary to prepare the equipment for use, shall be capitalized with the material upon purchase. All subsequent costs of removing, resetting, changing, renewing oil, and repairing constitute operations and maintenance

expenses. The capitalized cost of special equipment items, including the first installation, shall be removed from the electric plant accounts only when the items are abandoned or retired from the system.

Meters, line-type transformers, oil circuit reclosers, sectionalizers, current and potential transformers, meter sockets, and other metering equipment listed in Account 370, Meters, as well as pole-type and underground voltage regulators in Account 368, Line Transformers, are considered to be special equipment items. Similarly, load control receivers (load control switches) recorded in Account 371, Installations on Customers' Premises, are considered to be items of special equipment. (See Interpretation No. 118.) Transformers, voltage regulators, metering equipment, and current and potential transformers for substations are not.

Special equipment items which are classified as nonusable shall be segregated in the warehouse and retired from service. The Summary of Special Equipment Costs shall be retitled Summary of Special Equipment Costs Retired and used for this purpose. A journal entry reflecting this information shall be prepared and posted to the books. Since loan funds for special equipment, including first installation costs, are approved for advance by the Rural Development upon receipt of the borrower's written estimate of funds required, and not on the basis of an Inventory of Work Orders, it is improper to take a credit for any salvage involved in the retirement of special equipment on the Inventory of Work Orders.

Electric borrowers that wish to receive a waiver from the special equipment accounting requirements should submit a letter request to Rural Development. In order to expedite these requests the letter to Rural Development should state that the borrower will adhere to the following requirements to account for special equipment using the work order procedure rather than the special equipment accounting procedures prescribed by Rural Development:

1. New purchases of special equipment items are to be charged to Account 154, Materials and Supplies, upon purchase.
2. Labor, material and overhead costs associated with the initial installation and all subsequent installations of special equipment are recorded on construction work orders and charged to the appropriate plant accounts upon closeout of the construction work order.
3. Labor and overhead costs associated with the removal of special equipment items, whether the items removed are placed in inventory or permanently retired and disposed of, are recorded on retirement work orders and charged or credited to the depreciation reserve account upon closeout of the retirement work order.

4. The special equipment items retired and salvaged for reuse are returned to the materials and supplies account at the average material cost in the materials and supplies account and credited to the depreciation reserve upon closeout of the retirement work order.

In addition to recognition of the requirements noted above, the borrower

should indicate how it plans to account for the items of special equipment that have been charged to the plant accounts but not installed (in inventory). Two acceptable methods to account for this equipment are: (1) Leave the equipment in the plant accounts until the inventory is depleted and charge only new purchases to materials and supplies, or (2) credit the plant accounts for the installed cost of the equipment in inventory, charge the equipment cost to materials and supplies, and charge the installation cost to the appropriate operations expense account. Also, under the second method, the borrower must submit a "negative" special equipment summary to Rural Development to return to the balance in reserve for the current loan the installed cost of special equipment in inventory on the date of transition.

\* \* \* \* \*

**136 Storm Damage**

As a result of recent hurricane, flood, and ice storm damage, Rural Development has received several inquiries concerning the proper accounting for storm damage costs and the associated funds received from the Federal Emergency Management Administration (FEMA).

Storm damage costs should be accounted for under the work order procedure. Units of property destroyed or otherwise removed from service must be reflected on retirement work orders and units of property installed must be shown on construction work orders. To ensure that the accounting for construction and retirement costs is as accurate as possible, an effort should be made to accurately accumulate material, labor, and overhead costs. Even when extreme care has been exercised, however, it may still be necessary to use estimates to develop the appropriate cost figures.

When a storm occurs, a utility typically incurs a large retirement loss, all or a part of which should be charged to the accumulated provision for depreciation. Storm damage costs over and above construction and retirement costs represent maintenance expense. Maintenance costs include the costs of resagging lines, straightening poles, and replacing minor items of property. When extensive damage has occurred, the need to restore the property to an operating condition without delay usually results in excessive costs being incurred. Standard property unit costs may be used as a guide in determining the amount to be capitalized. It should be noted, however, that when standard property unit costs are used, all excess costs are charged to maintenance expense.

Because of the storm's destruction, property is retired prematurely and as a result, extraordinary retirement losses occur. When such extraordinary losses occur, they should be recorded in the year in which the losses are incurred. If the recording of such losses will materially distort the income statement, such losses may be charged to Account 435, Extraordinary Deductions. These costs may be deferred and amortized to future periods only if the provisions of Statement of Financial Accounting Standards No. 71, Accounting for the Effects of Certain Types of Regulation (Statement No. 71), are

applied. Under the provisions of Statement No. 71, a utility may defer certain costs, provided such costs are included in the utility's rate base and recovered through future rates. If an Rural Development borrower elects to apply the provisions of Statement No. 71, Rural Development approval is required. To obtain Rural Development approval, a borrower must submit:

a. A detailed description of the plan including the nature of the expense item, the amount of the deferral, the specific time period for rate recovery, and justifying support for the time period selected;

b. The accounting journal entries being used by the cooperative to record the expense deferral and amortization of deferred costs; and

c. A copy of the state Commission order authorizing recovery of the deferred costs through future rates, or in the absence of commission jurisdiction, a resolution from the cooperative's board of directors authorizing such recovery.

To assist in the restoration of the damaged facilities, the Federal government often provides assistance through Federal Emergency Management Agency (FEMA).

Under current FEMA procedures, FEMA provides funds for the restoration of facilities based upon the cost estimates submitted by the entity requesting assistance. If the FEMA grant is for less than 100 percent of the cost estimates, and does not specify offset expenses, thereby providing the borrower with the maximum opportunity to utilize Rural Development Utilities Program loan funds to finance capitalizable costs. When the funds are received, they should be accounted for by first applying the funds received as a credit to maintenance expense and administrative and general costs. Any remaining funds should then be applied as a credit to construction and retirement costs.

\* \* \* \* \*

**404 Consolidated Financial Statements**

\* \* \* \* \*

Although Statement No. 94 requires the consolidation of majority-owned subsidiaries, Forms 7 and 12 must be prepared on a basis consistent with the equity method of accounting for investments. For distribution borrowers, this requires that the investment be shown on Form 7 in Part C, Balance Sheet, on line 7, Investments in Subsidiary Companies, or line 9, Investments in Associated Organizations—Other—General Funds, as appropriate. The result of operation is shown in Part A, Statement of Operations, on line 23, Income (Loss) from Equity Investments. For generation and transmission borrowers, the investments should be shown on Form 12, in Section C, Balance Sheet, on Line 7, Investments in Subsidiary Companies, or Line 9, Investments in Associated Organizations—Other—General Funds, as appropriate. The result of operations should be shown in Section A, Statement of Operations, on line 30, Income (Loss) from Equity Investments.

\* \* \* \* \*

**626 Rural Economic Development Loan and Grant Program**

\* \* \* \* \*

On December 21, 1987, Section 313, Cushion of Credits Payments Program, was added to the Rural Electrification Act. Section 313 establishes a Rural Economic Development Subaccount and authorizes the Administrator of the Rural Utilities Service to provide zero interest loans or grants to RE Act borrowers for the purpose of promoting rural economic development and job creation projects.

Subpart B, Rural Economic Development Loan and Grant Program, 7 CFR Part 1703, sets forth the policies and procedures relating to the zero interest loan program and for approving and administering grants. The accounting journal entries required to record the transactions associated with a rural economic development loan are as follows:

- Dr. 224.17, RUS Notes Executed—Economic Development—Debit
- Cr. 224.16, Long-Term Debt—RUS Economic Development Notes Executed
- To record the contractual obligation to RUS for the Economic Development Notes.
- Dr. 131.12, Cash—General—Economic Development Funds
- Cr. 224.17, RUS Notes Executed—Economic Development—Debit
- To record the receipt of the economic development loan funds.
- Dr. 123, Investment in Associated Organizations or
- Dr. 124, Other Investments
- Cr. 131.12, Cash—General—Economic Development Funds
- To record the disbursement of Economic development loan funds to the project.
- Dr. 131.1, Cash—General Funds
- Cr. 421, Miscellaneous Nonoperating Income
- To record payment received from the project for loan servicing charges.
- Dr. 171, Interest and Dividends Receivable
- Cr. 419, Interest and Dividend Income
- To record the interest earned on the investment of rural economic development loan funds.
- Dr. 426.1, Donations or
- Dr. 426.5, Other Deductions
- Cr. 131.1, Cash—General Funds
- To record the payment of interest earned in excess of \$500.00 on the investment of rural economic development loan funds.
- Note:** Interest earned in excess of \$500.00 must be used for the rural economic development project for which the loan funds were received or returned to RUS.
- Dr. 131.12, Cash—General—Economic Development Funds
- Cr. 123, Investment in Associated Organizations or
- Cr. 124, Other Investments
- To record receipt of the repayment, by the project, of economic development loan funds.
- Dr. 426.5, Other Deductions
- Cr. 123, Investment in Associated Organizations or
- Cr. 124, Other Investments
- To record the default, by a project, of economic development loan funds.
- Dr. 224.16, Long-Term Debt—RUS Economic Development Notes Executed

Cr. 131.12, Cash—General—Economic Development Funds  
 To record the repayment, to RUS, of the economic development loan funds.  
 The accounting journal entries required to record the transactions associated with a rural economic development grant are as follows:  
 Dr. 131.13, Cash—General—Economic Development Grant Funds  
 Cr. 224.18, Other Long-Term Debt—Grant Funds;  
 Cr. 208, Donated Capital; or  
 Cr. 421, Miscellaneous Nonoperating Income  
 To record grant funds disbursed by RUS.  
 If the grant agreement requires repayment of the funds upon termination of the revolving loan program, Account 224.18 should be credited. If the grant agreement states that there is absolutely no obligation for repayment upon termination of the revolving loan program, the funds should be accounted for as a permanent infusion of capital by crediting Account 208. If, however, the grant agreement is silent as to the final disposition of the grant funds, Account 421 should be credited.  
 Dr. 123.3, Investment in Associated Organizations—Federal Economic Development Loans  
 Cr. 131.13, Cash—General—Economic Development Grant Funds  
 To record advances of Federal funds to associated organizations for authorized rural economic development projects.  
 Dr. 124.1, Other Investments—Federal Economic Development Loans  
 Cr. 131.13, Cash—General—Economic Development Grant Funds  
 To record advances of Federal funds to nonassociated organizations for authorized rural economic development projects.  
 Dr. 171, Interest and Dividends Receivable

Cr. 419, Interest and Dividend Income  
 To record the accrual of interest on loans made to associated and nonassociated organizations with Federal funds for authorized rural economic development projects.  
 Dr. 131.14, Cash—General—Economic Development Non-Federal Revolving Funds  
 Cr. 123.3, Investment in Associated Organizations—Federal Economic Development Loans or  
 Cr. 124.1, Other Investments—Federal Economic Development Loans  
 To record repayment of loans made with Federal funds.  
 Dr. 123.4, Investment in Associated Organizations—Non-Federal Economic Development Loans  
 Cr. 131.14, Cash—General—Economic Development Non-Federal Revolving Funds  
 To record advances of non-Federal funds to associated organizations for authorized rural economic development projects.  
 Dr. 124.2, Other Investments—Non-Federal Economic Development Loans  
 Cr. 131.14, Cash—General—Economic Development Non-Federal Revolving Funds  
 To record advances of non-Federal funds to nonassociated organizations for authorized rural economic development projects.  
 Dr. 171, Interest and Dividends Receivable  
 Cr. 419, Interest and Dividend Income  
 To record the accrual of interest on loans made to associated and nonassociated organizations with non-Federal funds for authorized rural economic development projects.  
 Dr. 131.14, Cash—General—Economic Development Non-Federal Revolving Funds

Cr. 123.4, Investment in Associated Organizations—Non-Federal Economic Development Loans or  
 Cr. 124.2, Other Investments—Non-Federal Economic Development Loans  
 To record repayment of loans made with non-Federal funds.  
 \* \* \* \* \*

**633 Cushion of Credit**

On December 21, 1987, Section 313, Cushion of Credits Payments Program, was added to the Rural Electrification Act. Cushion of credit regulations are located in The Code of Federal Regulations (CFR) 7 CFR part 1785. A cushion of credit payment is a voluntary unscheduled payment by a borrower in excess of amounts due and payable. A cushion of credit account is automatically established by Rural Development for each borrower who makes a payment after October 1, 1987, in excess of amounts then due on a Rural Development note. Payments received in the month in which an installment is due will be applied to the installment due. However, if the regular installment payment is received at a later date in the month, the first payment received will be applied retroactively to the cushion of credit account and the second will be applied to the installment due. By law, cushion of credit accounts earn five per cent interest annually, accrued daily and posted quarterly. Although the interest earned will appear as a reduction in the interest billed on the borrower's Rural Development notes and will be separately shown on Form 694, Statement of Interest and Principal Due, interest billed must be adjusted by adding back the interest earned while principal is reduced by the amount of the interest earned before recording the debt payment. Below is an example of the adjustment required:

|                      | As billed | Adjustment | Adjusted |
|----------------------|-----------|------------|----------|
| Payment Billed ..... | \$1,000   | .....      | \$1,000  |
| Principal .....      | 800       | -\$50      | 750      |
| Interest .....       | * 200     | 50         | 250      |

\* Includes reduction of \$50 for interest earned on cushion of credit account.

Cushion of credit is intended to enable the borrower to deposit funds and have those funds available to make scheduled payments (or installments) only. A borrower may not have more cushion of credit funds, including accrued interest, than their entire Rural Development debt which includes loans made in Rural Electric and Telephone (RET) and Federal Financing Bank (FFB). If a borrower makes less than or no payment when their billing invoice is due, cushion of credit will automatically add to or make their payment systematically for them.

Cushion of credit is not available to use for prepayment of loan accounts before maturity except for the following situations:

1. The total amount of cushion of credit principal with accrued interest equals the borrower's total debt
2. The borrower intends to prepay all remaining debt using a combination of payment with all cushion of credit funds available.

**Accounting Requirements**

All payments made to a cushion of credit account should be recorded as follows:  
 Dr. 224.6, Advance Payments Unapplied—Long-Term Debt—Debit  
 Cr. 131.1, Cash—General  
 All interest earned on the balance of funds in the account should be recorded as follows:  
 Dr. 224.6, Advance Payments Unapplied—Long-Term Debt—Debit  
 Cr. 419, Interest and Dividend Income

**Reporting Requirements**

Previously, Rural Development required that the balance in the cushion of credit account be reported, on the Form 7, Financial and Statistical Report, as a reduction of the Rural Development long-term debt balance. On January 15, 2003, Rural Development issued letter guidance permitting a proportionate share of the cushion of credit balance be reported as a reduction in Current

Maturities Long-Term Debt. Additionally, beginning with calendar year 2006 submissions, Form 7 has been revised to include a separate line for cushion of credit balances within the long-term debt section of Part C.

For purposes of the audited financial statements, presentation of the balance of the cushion of credit account as a long-term investment is an acceptable alternative to Rural Development.

17. Add Subpart D to read as follows:

**Subpart D—Preservation of Records**

|         |  |
|---------|--|
| Sec.    |  |
| 1767.66 | Purpose.                               |
| 1767.67 | General.                               |
| 1767.68 | Designation of a supervisory official. |
| 1767.69 | Index of records.                      |
| 1767.70 | Record storage media.                  |

1767.71 Periods of retention.  
1767.72–1767.85 [Reserved]

## Subpart D—Preservation of Records

### § 1767.66 Purpose.

This subpart establishes policies and procedures for the effective preservation and efficient maintenance of financial records of Electric borrowers.

### § 1767.67 General.

(a) Rural Development endorses the guidelines as described by the Federal Energy Regulatory Commission's (FERC) "Regulations to Govern the Preservation of Records of Public Utilities and Licensees." The FERC guidelines can be found in 18 CFR part 125.

(b) The regulations prescribed in this part apply to all books of account, contracts, records, memoranda, documents, papers, and correspondence prepared by or on behalf of the borrower as well as those which come into its possession in connection with the acquisition of property by purchase, consolidation, merger, etc.

(c) The regulations prescribed in this part shall not be construed as excusing compliance with any other lawful requirements for the preservation of records.

### § 1767.68 Designation of a supervisory official.

Each borrower shall designate one or more officials to supervise the preservation of its records.

### § 1767.69 Index of records.

(a) Each borrower shall maintain a master index of records. The master index shall identify the records retained, the related retention period, and the locations where the records are maintained. The master index shall be subject to review by Rural Development and Rural Development shall reserve the right to add records, or lengthen retention periods upon finding that retention periods may be insufficient for its purposes.

(b) At each office where records are kept or stored the borrower shall arrange, file, and index the records currently at that site so that they may be readily identified and made available to representatives of Rural Development.

### § 1767.70 Record storage media.

The media used to capture and store the data will play an important part of each Rural Development borrower. Each borrower has the flexibility to select its own storage media. The following are required:

(a) The storage media shall have a life expectancy at least equal to the applicable retention period provided for

in the master index of records, unless there is a quality transfer from one media to another with no loss of data. Each transfer of data from one media to another shall be verified for accuracy and documented.

(b) Each borrower shall implement internal control procedures that assure the reliability of, and ready access to, data stored on machine-readable media. The borrower's internal control procedures shall be documented by a responsible supervisory official.

(c) Records shall be indexed and retained in such a manner that they are easily accessible.

(d) The borrower shall have the hardware and software available to locate, identify, and reproduce the records in readable form without loss of clarity.

(e) At the expiration of the retention period, the borrower may use any appropriate method to destroy records.

(f) When any records are lost or destroyed before the expiration of the retention period set forth in the master index, a certified statement shall be added to the master index listing, as far as may be determined, the records lost or destroyed and describing the circumstances of the premature loss or destruction.

### § 1767.71 Periods of retention.

(a) Records of Rural Development borrowers of a kind not listed in the FERC regulations should be governed by those applicable to the closest similar records. Financial requirement and expenditure statements, which are not specifically covered by FERC regulations, are recommended to be kept for one year after the "as of date" of Rural Development's loan fund and accounting review.

(b) Consumer accounts' records should be kept for those years for which patronage capital has not been allocated.

(c) Records supporting construction financed by Rural Development shall be retained until audited and approved by Rural Development.

(d) Records related to plant in service must be retained until the facilities are permanently removed from utility service, all removal and restoration activities are completed, and all costs are retired from the accounting records unless accounting adjustments resulting from reclassification and original costs studies have been approved by Rural Development or other regulatory body having jurisdiction.

(e) Life and mortality study data for depreciation purposes must be retained for 25 years or for 10 years after plant is retired, whichever is longer.

## § 1767.72–1767.85 [Reserved]

Dated: April 7, 2008.

**James M. Andrew,**

*Administrator, Rural Utilities Service.*

[FR Doc. E8–11264 Filed 5–23–08; 8:45 am]

BILLING CODE 3410–15–P

## DEPARTMENT OF AGRICULTURE

### Animal and Plant Health Inspection Service

#### 9 CFR Part 82

[Docket No. APHIS–2006–0036]

RIN 0579–AC42

### Exotic Newcastle Disease; Quarantine Restrictions

**AGENCY:** Animal and Plant Health Inspection Service, USDA.

**ACTION:** Final rule.

**SUMMARY:** We are making several changes to the exotic Newcastle disease domestic quarantine regulations, including adding an option for the movement of pet birds; adding restrictions on the interstate movement of live ratiites out of quarantined areas; harmonizing our domestic and import regulations regarding the movement of dressed carcasses of dead birds and dead poultry; providing for the use of alternative procedures for treating manure and litter and for composting; and adding an additional surveillance period after the conditions for removing quarantine are met before quarantine is removed. We concluded that these changes are necessary based on our experiences during the eradication programs for the 2002–2003 outbreaks of exotic Newcastle disease in California, Arizona, Nevada, and Texas. In the event of an exotic Newcastle disease outbreak, these changes will help to ensure that exotic Newcastle disease does not spread from quarantined areas and that exotic Newcastle disease is eradicated within quarantined areas.

**DATES:** *Effective Date:* June 26, 2008.

**FOR FURTHER INFORMATION CONTACT:** Dr. Glen Garris, Director, National Veterinary Stockpile, National Center for Animal Health Emergency Management, VS, APHIS, 4700 River Road Unit 41, Riverdale, MD 20737–1231; (301) 734–8073.

#### SUPPLEMENTARY INFORMATION:

#### Background

Exotic Newcastle disease (END) is a contagious and fatal viral disease affecting the respiratory, nervous, and