NOTICE 1117 OF 2008

NATIONAL ENERGY REGULATOR OF SOUTH AFRICA

Title: Regulatory Reporting Manual Volume 3: Piped-gas

Purpose: To prescribe and provide guidance to the regulated entities in the Piped-gas Industry on the format, content, preparation and submission to the Energy Regulator of required information to perform its functions.

Table of Contents

1 Definitions and Instructions

1.1 Overview

Volume 3 of the Regulatory Reporting Manual (RRM) for use by regulated gas businesses prescribes accounting classifications and instructions in the form of a chart of accounts aimed at achieving uniform reporting records by maintaining a consistent application among licensees. This chart of accounts along with Volume 1 is the basis for regulatory financial record keeping and submitting regulatory financial reports.

This chart of accounts is organized as follows:-

[a]. Definitions

[b]. Preparation Instructions

[c]. Listing of Accounts in the form of Chart of Accounts (COA):

- Account numbers
- Account titles
- Description of the transactions to be recorded in the account
- Instructions on recording the transaction in the account

The following table summarises, the accounts for each gas business (transmission, storage, distribution, liquefaction, re-gasification and trading of gas) prescribed in this volume:-

Balance Sheet Accounts	Gas plant/facility
	Other property and investment
	Current and accrued assets
	Deferred debits
	Owners' equity (share capital and retained earnings)
	Long term debt
	Other non-current liabilities
	Current and accrued liabilities
	Deferred credits
Income & Expense Accounts	Operating income (regulated activity)
	Operating & maintenance expenses
	Other income & deductions
	Depreciation/amortization expenses
	Regulatory assets/debits and liabilities/credits
	Administrative and general expenses
	Extraordinary items
	Interest charges

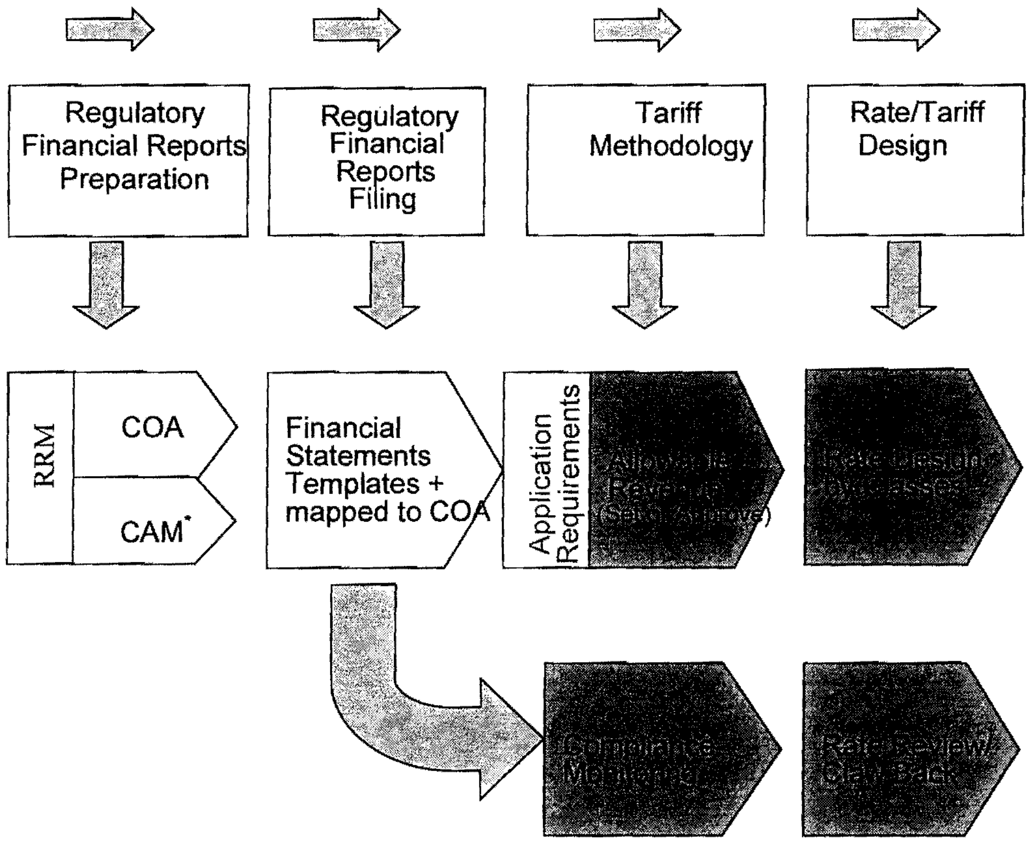
	Taxes
Operating revenues	Trading in Gas (Sale of Gas):
	• Residential customers (provincial basis)
	• Commercial customers (provincial basis)
	• Industrial customers (provincial basis)
	Other revenues
Operating and maintenance expenses	Transmission expenses
	Storage expenses
	Distribution expenses
	Gas trading expenses
	Customer account expenses
	Customer service, sales,
	General and administrative expenses

Implementation and compliance with the account structure prescribed in this Volume will achieve the following outcomes desired by the Energy Regulator:-

- ✓ Cost separation between regulated and non-regulated businesses
- ✓ Functionalization – recording by functional categories, namely construction or operation of; transmission, storage, distribution facilities, and trading of gas.
- ✓ Classification of costs – main categories e.g. plant, opex, and taxes and sub-category or sub-accounts, e.g. the gas plant has such sub-accounts as; land and land rights, structures and improvements.
- ✓ Amenable to allocation of costs to customer classes – the costs of each functional category classified by causation characteristics distinguishing between tariff for network services and price for molecules. Customers should be divided into classes, as defined in the Gas Regulations, for the purpose of allocating costs to service and designing tariffs or prices.

Linkage of Regulatory Reporting to Other Regulatory Activities

The following diagram provides a high level perspective the place Regulatory Reporting occupies in the regulatory process and the linkage thereto.



* CAM denotes Cost Allocation Manual

1.2 List of Acronyms

1. ABC – Activity Based Costing
2. CAM – Cost Allocation Manual
3. DSM – Demand Side Management
4. ERP – Enterprise Resource Planning
5. FAQ - Frequently Asked Questions
6. G & A – General and Administrative
7. GAAP[1] – Generally Accepted Accounting Practice
8. IFRS – International Financial Reporting Standards
9. IT – Information Technology
10. NBV – Net Book Value
11. PFMA – Public Finance Management Act, 1999 (No 01 of 1999 and as amended by Public Finance Management Amendment Act, No 29 of 1999)
12. RRM – Regulatory Reporting Manual
13. RAV – Regulatory Asset Value
14. RV – Regulatory Value
15. SLA – Service Level Agreement

1.3 Terminology

1. Affiliate or Associate or Related Party- includes corporations or business enterprises that are: - [1] members of the same group of companies as the corporate entity, including subsidiaries, joint venture partners, joint venture companies and other similar arrangements, and the group's associated companies over which the corporate entity's ultimate shareholder (where ultimate shareholder excludes the Government) can exert significant influence; and [2] companies outside the group of companies of which the corporate entity is a member, over which the corporate entity's ultimate shareholder (where the ultimate shareholder excludes the Government) can exert significant influence.
2. Cost Allocation – is the process of correctly assigning a single cost to more than one business unit, activity, process, product or service in a manner that prevents cross subsidization.
3. Cost Allocator - is a formula or ratio for sharing the cost of an activity among those which cause the cost to be incurred.
4. Cost Driver – is a measurable event or quantity which influences the level of costs incurred and which can be directly traced to the origin of the costs themselves.
5. Cross subsidisation – is when a firm, producing more than one product, uses the revenues from the sale of one product to cover the costs of producing another

[1] South Africa Institute of Chartered Accountants (SAICA)/ Accounting Practices Board (APB) agreed from 2004 to issue International Financial Reporting Standards (IFRS) as South Africa Statements of GAAP without amendment.

product or, the process of assigning costs between divisions/services/products in a manner that does not objectively reflect the manner in which the costs are incurred.

6. Depletion Accounting – is an accounting practice that places charges against earnings based on resources extracted/removed from total natural resources reserves in an entity's books of accounts.
7. Direct Costs – are costs that are specifically incurred on behalf of a specific entity with an identifiable causal relationship with a business unit, activity, process, product or service. Direct assignment is applied in case of direct costs.
8. Distribution Pipelines - are as defined by Gas Regulation 2 (1).
9. Energy Regulator – National Energy Regulator of South Africa (NERSA) established in terms of section 3 of the National Energy Regulator Act, 2004 (Act No 40 of 2004).
10. Fully Allocated Cost – is the total of all direct and indirect costs including cost of capital incurred in providing both regulated and non-regulated goods and/or services.
11. Gas Act - Gas Act, 2001 (Act No 48 of 2001).
12. General plant or General facility: means any installation or property that is used in gas piped-gas operations and not provided for in a Plant Account
13. Government – Government of the Republic in South Africa.
14. Historical Cost – "actual cost" or "original cost" or "purchase price" of the asset. Where no historical cost information exists, RAV is the deemed historical cost at the commencement of economic regulation
15. Incremental Costing or Marginal Costing – is a pricing approach based on only the additional cost of producing a product/service while the pre-existing products/services support the fixed costs.
16. Indirect Costs - are those costs which are not directly assignable to a product or service, but incurred by an entity or business unit in producing the regulated product or service. This includes, but is not limited to, overhead costs, administrative and general costs, and taxes. Indirect costs are allocated based upon a methodology as set forth in this Manual.
17. Joint Costs – are those costs which do not have a specific, identifiable causal relationship with a particular entity or affiliate, but which benefit all affiliates/business units, or more than one. Joint costs are also referred to as common costs, and include corporate costs.
18. Licensee – a holder of a licence granted or deemed to have been granted by the Energy Regulator under the National Energy Regulator Act, 2004 (Act No 40 of 2004), Gas Act, 2001 (Act No 48 of 2001), Licensee and Regulated Entity shall be used interchangeably.
19. Long-lived asset – Asset with economic (service) life that spans over several years.
20. Manual – Regulatory Reporting Manual.
21. Minister – Minister of Minerals and Energy.
22. Modified Historical Cost - is historical cost indexed by inflation.

23. National Energy Regulator Act – National Energy Regulator Act, 2004 (Act No 40 of 2004).
24. NERSA – National Energy Regulator of South Africa.
25. Non Discrimination - is as defined by Gas Act, 2001 (Act No 48 of 2001).
26. Operation of pipeline activities includes:-

    (a) All activities necessary to safely operate an existing pipeline; and

    (b) Maintenance activities, upgrades, repairs, or replacements to an existing pipeline or part of a pipeline that do not increase the approved maximum operating pressure; diameter of the pipeline; or its route. An upgrade in this context means the addition of cathodic protection systems, upgrades in technology, metering or regulating facilities installed for the purposes of measurement or monitoring; but upgrades in this context exclude additions of new connections, additional compression and pressure, a tie-in or hot tap, and associated piping and connection facilities for purposes of sale or receipt of gas.

    Operations and maintenance do not include:-

    (i) upgrades that result in increases to the maximum operating pressure, the diameter of the pipeline, and or permanent increase in airborne emissions or noise levels (except for temporary increases, above previously approved levels);

    (ii) looping (i.e. adding a pipe parallel or adjacent to, and interconnected with an existing pipeline for the general purpose of increasing capacity;

    (iii) construction of a new pipeline; or

    (iv) decommission (for longer than 12 months), re-commission (where a pipeline has been decommissioned for more than 12 months), decommissioning, or absenteeism, or abandonment.
27. Other plant or "Other facility" means any installation or property that is entirely distinct from and is not operated in connection with the Piped-gas service of the company.
28. Plant herein also means facility.
29. Plant or "facility" - means, in respect of a Piped-gas company, any installation or property operated and used in connection with the Piped-gas service of the company, the cost of which is to be recorded in the "Plant Account" prescribed herein.
30. Regulatory Assets/Debits - are assets/debits that result from tariff setting/approval actions/decisions of the Energy Regulator. Regulatory assets/debits arise from specific revenues, expenses, gains, or losses that would have been included in net income determination in one period under the general requirements of the Regulatory Reporting Manual. However, due to the Energy Regulator decision, such items are deferred and instead will be included in a different period(s) for purposes of developing the tariffs the licensee is authorized to charge for its regulated services; or
31. Regulatory Liabilities/Credits – are liabilities/credits that result from tariff setting/approval actions/decisions result from tariff setting/approval actions/decisions of the Energy Regulator. Regulatory liabilities arise from specific revenues, expenses,

gains, or losses that would have been included in net income determination in one period under the general accounting. However, due to Energy Regulator decision a liability arises requiring the licensee for, instance, to make a refund to customers.

Examples of Items that may become Regulatory Assets or Liabilities as a result a regulatory decision be Energy Regulator:-

(a) un-recovered plant and regulatory study costs where construction has been cancelled;

(b) rate moderation or rate smoothing plans/deferred rate impact amounts;

(c) deferred losses/gains from disposition of regulated plant;

(d) gains/losses on derivative financial assets/liabilities;

(e) plant acquisition adjustments;

(f) primary energy variations; and

(g) claw-backs, etc.

32. Regulated Business - any licensee, service or activity that is subject to regulation by the NERSA in terms of the National Energy Regulator Act No 40 of 2004, or the Gas Act No 48 of 2001.
33. Regulated Entity – Regulated Business.
34. Regulatory Reporting Manual (RRM) – Detailed reporting procedures, requirements and guidelines to be implemented by the regulated entities.
35. Regulatory Accounts or Regulatory Financial Statements – financial records and statements to be prepared and submitted to the Energy Regulator by a regulated entity as prescribed by this Regulatory Reporting Manual.
36. Service Life of Asset - estimated economically useful life of depreciable property as supported by engineering, economic, or other depreciation studies.
37. Shared Services – are services that are corporate or general purpose in nature, are used by various or all business units, but are not operations related.
38. Transfer Pricing – the pricing of products/services that one affiliate/business unit supplies to another affiliate/business unit of the same organization.
39. Transmission Pipelines - are as defined by Gas Regulation 2 (2), 3(1), 3(2) and 3(3).
40. Unregulated Business - entity, service or activity that is not subject to regulation by the Energy Regulator.
41. Other accounting terminologies used herein, unless defined otherwise in the RRM, will take the same meaning as that given in the IFRS and/or South African GAAP/GRAP

1.4 General Instructions

1. Separate accounts and data for each activity

The gas transmission, storage, distribution, trading, liquefaction and re-gasification activities of vertically integrated companies must be managed separately with separate accounts and data with no cross-subsidisation. Such records must be kept in sufficient detail as to be able to furnish the Energy Regulator with details by licensed activity and, if so required, by licensed facility.

2. Distribution of Pay and Expenses of Employees.

The charges to gas plant/facility, operating expense and other Accounts for services and expenses of employees engaged in activities chargeable to various Accounts, such as construction, maintenance, and operations, shall be based upon the actual time engaged in the respective classes of work, or in case that method is impracticable, upon the basis of a study of the time actually engaged during a representative period.

3. Payroll Distribution.

Underlying accounting data should be maintained so that the distribution of the cost of labour charged direct to the various Accounts will be readily available.

Such underlying data shall permit a reasonably accurate distribution to be made of the cost of labour charged initially to clearing accounts so that the total labour cost may be classified among construction, cost of decommissioning and land rehabilitation, gas operating functions and non-regulated operations.

4. Income Taxes

In calculating regulated business income taxes, the licensee should maximize all the allowed deductions for income tax. Only those income taxes on regulated business income that is currently payable should be included as a "pass-through" in the allowable revenue/customer rates.

Each licensee must disclose in detail the methodology used to calculate income tax, in its tariff application.

The Energy Regulator may, when deemed appropriate, also prescribe alternative methodology for calculating income tax, or determine "all-inclusive" allowable revenue so that income tax expense need not be considered separately.

5. Accounting for derivative instruments and hedging activities

Regulated entities should recognize derivative instruments as either assets or liabilities in the financial statements and apply accounting treatment and disclosure requirements as prescribed by the South African GAAP/IFRS.

The regulated entity is required to report transparently the cost and frequency of trading in financial instruments as well as hedging strategy. Speculative trading in financial instruments will not be allowed by the Energy Regulator for tariff purposes.

The Energy Regulator will decide on how gains/losses from financial instruments and hedges, should be apportioned over time and to customer classes.

6. Accounting for asset retirement Obligations

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 Licensee should initially record a liability for an asset retirement obligation in the account for "Asset Retirement Obligations", and charge the associated Asset Retirement Costs to the gas plant/facility, and non-regulated plant/facility, 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 obligations. For periods subsequent to the initial recording of the asset retirement obligation, a Licensee 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 the account for "Asset Retirement Obligations", as follows:

(1) the licensee shall record the accretion of the liability by debiting the account for:-

(a) "Accretion Expense" from asset retirement obligation, in the case of a regulated plant in service;

(b) "Expenses of plant leased to others, in the case of a plant leased to others";

(c) "Interest, dividend and other income", in the case non-regulated plant;

and crediting the account for "Asset Retirement Obligations"; and

(2) the Licensee shall recognize any subsequent measurement changes of the liability initially recorded in the account for "Asset retirement obligations", for each specific Asset Retirement Obligation as an adjustment of that liability in the account for "Asset Retirement Obligations" with the corresponding adjustment to gas Licensee plant, gas plant leased to others, and non-regulated plant, as appropriate. The Licensee shall on a timely basis monitor any measurement changes of the asset retirement obligations.

Gains or losses resulting from the settlement of Asset Retirement Obligations associated with Licensee plant resulting from the difference between the amount of the liability for the Asset Retirement Obligation included in the account for Asset Retirement Obligations, and the actual amount paid to settle the obligation shall be credited to the account for "Gains / Losses from disposition of Licensee plant".

Gains or losses on the settlement of Asset Retirement Obligations associated with non-regulated plant resulting from the difference between the amount of the liability for the Asset Retirement Obligation account, Asset Retirement Obligations, and the amount paid to settle the obligation, shall be accounted for as follows:-

(1) gains shall be credited to the account for "Revenues from non-regulated operations" and;

(2) losses shall be charged to the account for "Expenses of non-regulated operations".

7. Research Development and Demonstration (RD&D)

RD&D is the expenditures incurred by a Licensee either directly or through another person or organization (such as a research institute, industry association, foundation, university, engineering company or similar contractor) in pursuing research, development, and demonstration activities as defined by the South African GAAP/IFRS and the regulated entity should apply to accounting treatment and disclosure requirements as prescribed by the South African GAAP/IFRS. Generally RD&D expenditures would typically include the following:-

A. Research:-

(i) laboratory research aimed at discovery of new knowledge.

(ii) searching for applications of new research findings or other knowledge.

(iii) conceptual formulation and design of possible product or process alternatives.

B. Development:-

(i) testing in search for, or evaluation of, product or process alternatives.

(ii) design, construction, and testing of pre-production prototypes and models.

(iii) design of tools, jigs, molds and dies involving new technology.

1.5 Plant Instructions

1. Classification of Gas Plant at effective date of the RRM

(a) The balances in the various plant accounts, as determined under the prior system of accounts, should be carried forward and categorized to this chart of accounts.

(b) The detailed gas plant accounts should be stated on the basis of cost to the Licensee of plant constructed by it and the original cost, or approved vesting Regulatory Value if original cost is not known, of plant acquired. The difference between the original cost, as above, and the cost to the Licensee of gas plant after giving effect to any accumulated provision for Depreciation or Amortization should be recorded in the account for "Gas plant acquisition adjustments".

(c) Plant acquired by lease which qualifies as capital lease property under SA GAAP/IFRS should be recorded in the account for "Property under capital leases".

(d) Plant accounts should be supported by sub-accounts that record the costs, by location, of:-

(i) each major facility including each main gas storage, distribution, trading, liquefaction and re-gasification, compressor station and main pipeline, ; and

(ii) any other facility that is separately located.

(e) Plant accounts should be maintained to record separately expenditures for each plant addition, replacement and retirement as licensed by the Energy Regulator.

(f) Any installation or property not used in Piped-gas operations should be recorded in the balance sheet account "Other Plant".

2. Gas Plant Should Be Recorded at Historical Cost

(a) Unless otherwise specified by the Energy Regulator, all amounts included in the Accounts for gas plant should be recorded at historical cost, except for property acquired by lease which qualifies as capital lease property and in which case it should be recorded in the account for "Property under capital leases, in accordance with SA GAAP/IFRS on Accounting for Leases.

The Energy Regulator may also make a once-off determination of a vesting Regulatory Value of an asset as specified in the RRM Volume 1, at the commencement of economic regulation or implementation of the RRM.

(b) When the consideration given for acquired or sold property is other than cash, the value of such consideration should be determined on a cash basis. In the entry recording such transaction, the actual consideration should be described with sufficient details to identify it. The Licensee should be prepared to furnish the Energy Regulator with the particulars of its determination of the cash value of the consideration if other than cash.

(c) When property is purchased under a plan involving deferred payments, no charge should be made to the gas plant Accounts for interest, insurance, or other expenditures occasioned solely by such form of payment.

(d) When contributions in aid of construction are received in the form of monies, the amount received should be recorded in the account for "Cash" and in the related asset contra account for "Gross value of contributions and grants-credit". This account will be amortized. These contributions should be recorded by rate class. If a contribution does not relate to a single rate class then the contribution should be allocated between rate classes in an objective manner.

(e) When an asset is added to gas plant, the cost thereof should be added to the appropriate gas plant account.

3. Gas Plant Sold/Retired.

(a) When gas plant is sold, conveyed, or transferred to another by sale, merger, consolidation, or otherwise, the book cost of the property sold or transferred to another should be credited to the appropriate Licensee plant accounts, including amounts carried in the account for "Gas plant acquisition adjustments". The amounts (estimated if not known) carried with respect thereto in the accounts for accumulated provision for depreciation and amortization and in the account for "Customer advances for construction", should be charged to such accounts. Unless otherwise ordered by the Energy Regulator, the difference, if any, between (1) the net amount of debits and credits and (2) the consideration received for the property (less Commissions and other expenses of making the sale) should be recorded in the account for "Gains /Losses from disposal of Licensee plant.

(b) When an asset is retired from gas plant, with or without replacement, the book cost (the amount at which such property is included in the gas plant accounts, including all components of construction costs) thereof should be credited to the gas plant account in which it is recorded. If the asset is of a depreciable class, the book cost of the asset retired and credited to gas plant should be charged to the accumulated provision for depreciation applicable to such property. The cost of removal and the salvage should be charged or credited, as appropriate, to such accumulated provision for depreciation account applicable to such property.

NOTE: In cases where existing regulated entities merge or consolidate because of financial or operating reasons or statutory requirements rather than as a means of transferring title of purchased properties to a new owner, the accounts of the constituent regulated entities may be combined. In the event original cost has not been determined, the resulting Licensee shall proceed to determine such cost as outlined herein.

4. Allowance for funds used during construction.

Allowance for funds used during construction includes the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds like equity, when so used, not to exceed, without prior approval of the Energy

Regulator, allowances computed in accordance with the formula prescribed in paragraph (a) of this subparagraph. No allowance for funds used during construction charges shall be included in these accounts for expenditures arising from construction projects which have been abandoned.

(a) The formula and elements for the computation of the allowance for funds used during construction shall be the approved weighted average cost of capital multiplied by the sum of:-

(i) average balance in construction work in progress,

(ii) plus average capital inventory balance,

(iii) less construction accounts payable,

(iv) less asset retirement costs (if any are included in construction work in progress).

(b) The weighted average cost rate shall be determined in the manner indicated and approved by the Energy Regulator for the applicable year.

NOTE A: When only a part of a plant or project is placed in operation or is completed and ready for service but the construction work as a whole is incomplete, that part of the cost of the property placed in operation or ready for service, shall be treated as Gas Plant in Service and allowance for funds used during construction thereon as a charge to construction shall cease. Allowance for funds used during construction on that part of the cost of the plant which is incomplete may be continued as a charge to construction until such time as it is placed in operation or is ready for service, except as limited above.

NOTE B: No allowance for funds used during construction will be included for projects where a 100% contribution has been received up front on a direct assigned project. For those projects where contributions are received up front and no allowance for funds used during construction is calculated, the contribution would be included in the rate base in the same period as the asset.

5. Plant Constructed:

Where a plant is constructed by or for that licensee, the costs to be recorded in the plant accounts shall include the following elements of cost:-

(a) Cost of Labour

(i) Cost of labour for construction of plant should be the amount paid for labour, including employee benefits, performed by the company's employees, where these employees are specially assigned to construction work

(ii) No charge should be made to plant accounts for the pay of the company's employees whose services in connection with construction are merely incidental, except as prescribed in this Manual.

(iii) The allocation of travelling and other incidental expenses of the company's employees shall be made to accounts on the same basis as the distribution of the pay of those employees.

(b) Cost of Materials and Supplies

(i) Cost of materials and supplies should be the purchase price of materials and supplies at the point of free delivery, the cost of VAT, inspection, transportation and, where appropriate, a suitable proportion of store expenses.

(ii) In determining the cost of materials and supplies, suitable allowance should be made for all discounts allowed and realized on the purchase thereof.

(iii) In debiting the plant accounts with materials and supplies used, allowance should be made for the value of:-

(1) unused portions and other salvage;

(2) the materials recovered from temporary pipe, scaffolding and other temporary structures used in construction; and

(3) small tools recovered and usable for other purposes.

(c) Cost of Special Machine and Heavy Work Equipment Service

(i) Cost of special machine and heavy work equipment service should be the cost of labour, material, depreciation, supplies and other costs incurred in maintaining and operating power shovels, scrapers, pile drivers, dredgers, ditchers, material loaders and similar equipment, and any amount paid to others for rent, operation and maintenance of such equipment.

(ii) Where a construction project necessitates the purchase of equipment to be used exclusively on the project until the project is completed, the cost of the equipment should be debited to the accounts representing the cost of the project and while the cost remains so debited no debit should be made to expenses for depreciation on the equipment. The amount realized from any subsequent sale of this equipment, or the appraised value of any equipment retained after the completion of the project for which it was purchased, should be credited to the accounts debited with the equipment's cost.

(iii) The appraised value of equipment retained after the completion of the project for which it was purchased should be debited to the appropriate plant account and, thereafter, for the purposes of accounting, that appraised value should be considered as the cost of the equipment.

(d) Cost of Transportation

(i) Cost of transportation incurred in the construction of plant should be the cost of transporting labour, equipment and material and supplies used for construction purposes.

(ii) The cost of transportation of construction material to the point where material is received by the company should be included, if practicable, in the cost of the material.

(f) Cost of Contract Work

Cost of contract work should be any amount paid for work performed under contract by other companies and individuals.

(g) Cost of Insurance, Injuries and Damages

(i) Cost of insurance, injuries and damages should include

(1) the premiums paid for insuring plant during construction;

(2) the costs incurred for protection against fire and wilful destruction of plant during construction; and

(3) the costs incurred in respect of injuries to persons, damage to property of others and damage to plant incidental to construction.

(ii) Insurance recovered or recoverable for compensation for injuries to persons injured during the construction of plant should be credited to the account or accounts debited with the cost of the injuries.

(iii) Insurance recovered or recoverable in respect of property damage incidental to the construction of plant should be credited to the account or accounts debited with the cost of the damage.

(4) Any injury or damage incidental to the removal of a structure or part thereof should be debited to the account recording the retirement costs of the structure.

(5) Any injury or damage incidental to the removal of a structure or part thereof that is an encumbrance on newly acquired land by a company shall be included in the cost of that land.

(h) Cost of Privileges

Cost of privileges should be the compensation paid for the temporary use of public and private property in connection with a construction project.

(i) Cost of Engineering Services

Cost of engineering services should be any amount paid to other companies, firms or individuals engaged by the company to plan, design, prepare estimates, supervise, inspect or give general advice and assistance in connection with a construction project.

(j) Earnings and Expenses during Construction

Earnings and expenses during the construction of plant shall include all revenues derived during the construction period from property that is included in the cost of plant under construction and all expenses that are attributable to the revenues received.

(k) Cost of Rents

Cost of rents shall include any amount paid for the use of construction quarters and office space occupied by construction forces.

(l) Cost of Overhead during Construction

(i) Cost of overhead during construction shall include engineering, supervision and administrative salaries and expenses, employee benefits, legal fees, taxes, shop service and other analogous items, to the extent that they may be reasonably considered to be plant costs.

(ii) Only actual and reasonable overhead costs shall be assigned to particular jobs or units.

(iii) The records supporting the entries for cost of overhead during construction shall show the total amount of each type of overhead expenditure capitalized in the year and the basis of distribution thereof.

(m) Allowance for Funds Used During Construction

(i) A company may, as approved by the Energy Regulator, capitalize an allowance for funds used during construction.

(ii) The allowance for funds used during construction should be calculated in accordance with the instructions set out herein or as updated from time to time by the Energy Regulator, and may, if so directed by the Energy Regulator, be prorated over the appropriate depreciable plant accounts.

6. Asset retirement costs.

Amounts that are capitalized will increase the carrying amount of long lived assets when a liability for a long lived asset is recognized. Unless otherwise directed by the Energy Regulator, these amounts will not be recognized in the rate base.

7. Land and Land Rights.

(a) The accounts for land and land rights will record the cost of land owned by the Licensee and rights. These accounts should also include interests, and privileges held by the Licensee in land owned by others, such as leaseholds, easements, water and water power rights, diversion rights, submersion rights, rights-of-way, and other like interests in land.

(b) Separate entries should be made for the acquisition, transfer, or retirement of each parcel of land (excluding land rights) having a life of more than one year. A record should be maintained showing the nature of ownership, full legal description, and a date of recording of the land deed. Entries transferring or retiring land shall refer to the original entry recording its acquisition.

(c) Where land is retired or sold, the appropriate accounts (Gas Plant in Service, or Gas Plant Leased to Others, or Gas Plant Held for Future Use, or Other Plant) should be credited with the book cost of the land. Any difference between the amount received from the sale of land, less agents' commissions and other costs incident to the sale, and the book cost of such land or rights, should be recorded in the account for "Gains /Losses from disposition of Regulated Plant". Appropriate adjustments of the accounts should be made with respect to any structures or improvements located on land sold.

(d) The cost of buildings and other improvements (other than public improvements) should not be included in the land accounts. If at the time of acquisition of an interest in land such interest extends to buildings or other improvements (other than public improvements) which are then devoted to Licensee operations, the land and improvements shall be separately appraised with the cost allocated to land and buildings or improvements on the basis of the separate appraisals. If the improvements are removed or wrecked without being used in operations, the cost of removing or wrecking shall be charged and the salvage credited to the account in which the cost of the land is recorded.

(e) When the purchase of land for gas operations requires the purchase of more land than needed for such purposes, the charge to the specific land account shall be based upon the cost of the land purchased, less the fair market value of that portion of the land which is not to be used in Licensee operations. The portion of the cost measured by the fair market value of the land not to be used shall be recorded in the account for "Gas plant held for future use" or the account for "Non-regulated property", as appropriate.

8. Buildings, Structures and Improvements.

The accounts for structures and improvements will record the cost of all buildings and facilities to house, support, or safeguard property or persons, including all fixtures permanently attached to and made a part of buildings and which cannot be removed therefrom without cutting into the walls, ceilings, or floors, or without in some way impairing the buildings, and improvements of a permanent character on or to the land. Also included are those costs incurred in connection with the first clearing and grading of land and rights-of-way and the damage costs associated with construction and installation of plant.

Lighting or other fixtures temporarily attached to buildings for purposes of display or demonstration should not be included in the cost of the building but in the appropriate equipment account.

9. Asset Record System.

Each Licensee should record all construction and retirements of gas plant by means of work orders or job orders. Separate work orders may be opened for additions to and retirements of gas plant or the retirements may be included with the construction work order, provided, however, that all items relating to the retirements shall be kept separate from those relating to construction and provided, further, that any maintenance costs involved in the work shall likewise be segregated.

Each Licensee shall maintain records in which, for each plant account, the amounts of the annual additions and retirements are classified so as to show the number and cost of the various additions or retirements.

10. Transfers of Property.

When property is transferred from one gas plant account to another, from one Licensee department to another, from one operating division or area to another, to or from Accounts, "Gas plant in service", "Gas plant leased to others", "Gas plant held for future use", "Non-regulated property", the transfer shall be recorded by transferring the original cost thereof from the one account, department, or location to the other. Any related amounts carried in the accounts for accumulated provision for depreciation or amortization shall be transferred in accordance with the segregation of such accounts.

11. Common Plant.

(a) If the Licensee is engaged in more than one Licensed service and any of its plant is used in common for several licensed services or for other purposes to such an extent and in such manner that it is impracticable to segregate it by Licensee services currently in the accounts, such property, with the approval of the Energy Regulator, may be designated and classified as common plant in a separate account as specified by the Licensee.

(b) The Licensee should be prepared to show at any time and to report to the Energy Regulator annually, or more frequently, if required, and by Licensee plant accounts (301 to 399.2) the following: (1) The book cost of common plant, (2) The allocation of such cost to the respective departments using the common plant, and (3) The basis of the allocation, i.e. fully allocated cost basis prescribed in RRM Volume 1.

(c) The accumulated provision for Depreciation and Amortization of the Licensee shall be segregated so as to show the amount applicable to the property classified as common plant.

(d) The expenses of operation, maintenance, rents, depreciation and amortization of common plant shall be recorded in the accounts prescribed herein, but designated as common expenses, and the allocation of such expenses to the departments using the common plant shall be supported in such manner as to readily reflect the basis of allocation used. The fully allocated cost approach should be applied in allocating these costs.

12. Plant Equipment Held for Emergency in Stores.

Plant equipment held for emergency in stores are non rotational in nature and are considered to be capital assets and as such are included in Plant in service. Plant equipment held for emergency in stores are depreciated at the standard rate for the specific asset class.

13. Pipeline Relocations

(a) Where a gas plant unit is relocated, it shall be treated as plant unit retired and its book cost should be credited to the appropriate plant account

(b) Where a plant unit has been relocated, the relocated plant unit shall be considered as an addition and the cost should be debited to the appropriate plant account.

(c) Where a company's pipeline or any part thereof is located in accordance with an agreement that may require the company to relocate all or part of its pipeline and the circumstances are such that the company has no reasonable alternative but to relocate more than a plant unit of pipeline, the company may, with the approval of the Energy Regulator, debit the costs of relocation to expenses for the period in which the relocation was carried out.

14. Pipeline Replacements

(a) Where a plant unit of pipeline is replaced with other pipe in the same location, a company shall debit to the appropriate plant account the cost of opening and back filling the trench together with the cost of hauling, laying and connecting the pipe, the cost of removing retired pipe from the trench and other costs of pipeline construction.

(b) The cost of reconditioning pipeline not removed shall be accounted for as repairs and not as retirements or replacements.

(c) Where the plant unit of pipeline referred to in (a) is not replaced by new pipe in the same location, the cost of opening and back filling the trench from which the pipe is removed together with the cost of removing the pipe shall be accounted for as cost of rehabilitation.

1.6 Operating and Maintenance Expense Instructions

1. Operating & Maintenance Activities.

The cost of operation and maintenance chargeable to the various operating expense and clearing accounts includes labour, materials, overheads and other expenses incurred in operating and maintenance work.

The cost of repairs recorded in the maintenance accounts for gas plant shall include:-

(a) the cost of inspection to determine the repairs that are necessary;

(b) the cost of adjusting, repairing or replacing parts; and

(c) the cost of inspection, testing and running of parts to determine whether or not the repairs have been properly made and the repaired item is ready for service.

Maintenance accounts kept as prescribed herein should be debited with the costs of repairing and maintaining plant and shall include:-

(a) incidental costs including the construction and removal of false work in connection with maintenance;

(b) the cost of relocating pipeline plant where retirement accounting for units of plant is not involved;

(c) the cost of raising or lowering line pipe in the trench where retirement accounting for units of plant is not involved;

(d) the cost of repairing fences, sidewalks, driveways and streets within or adjacent to the plant;

(e) the cost of installing, maintaining and removing temporary facilities to prevent any interruptions in operations;

Materials recovered in connection with the maintenance of property shall be credited to the same account to which the maintenance cost was charged.

2. Supervision and Engineering Activities

(a) The supervision and engineering recorded in the operating expense accounts shall consist of the pay and expenses of superintendents, engineers, clerks, other employees and consultants engaged in supervising and directing the operation and maintenance of each function.

(b) Wherever allocations are necessary in order to arrive at the amount to be included in any account, the fully allocated cost approach should be used and this basis of allocation should be reflected in the underlying records.

3. Depreciation

(a) Unless otherwise approved by the Energy Regulator, a licensee should charge depreciation by using the straight-line method. The alternative depreciation methods that the Regulator may choose from in authorising an alternative method include:-

(i) the use or unit of production method;

(ii) the declining or diminishing value method; or

(iii) any other systematic method consistent with generally accepted accounting practices

(b) Monthly depreciation charges under the straight line method shall be computed by applying the annual percentage rate of depreciation to the depreciation base as of the first of each month and dividing the result by 12, or with the prior approval of the Energy Regulator, applying the annual percentage rate of depreciation to the depreciation base at the beginning of the company fiscal year and dividing the result by 12.

(c) An appropriate depreciation rate should be used in computing depreciation charges to reflect the different estimated useful life of the respective assets in each class of plant accounts, or each plant account, or each group of assets within a plant account.

(d) The depreciation rate should be based on the estimated service life of plant, as developed by a study of the company's history and experience (taking into account all relevant factors including variations in use, increasing obsolescence or inadequacy) and such engineering, economic or other depreciation studies and other information as may be available with respect to future operating conditions.

(e) Whenever a licensee makes a tariff application, it must provide the Energy Regulator with information on depreciation rates for each group of plant accounts, each plant account or each group of assets within a plant account, accompanied by a statement showing their basis and the methods employed in their computation.

4. Rents.

(a) The rent expense account, "Rents" shall include all rents, for property used in Licensee operations, except:-

(1) minor amounts paid for occasional or infrequent use of any property or equipment; and

(2) all amounts paid for use of equipment that, if owned, would be included in plant accounts, which shall be treated as an expense item and included in the appropriate functional account; and

(3) rents which are chargeable to clearing accounts, and distributed to the appropriate account. If rents cover property used for more than one function, or by more than one department, the rents shall be apportioned to the appropriate rent expense or clearing accounts of each department on an actual, or, if necessary, a fully allocated cost basis.

(b) When a portion of property or equipment rented from others for use in connection with Licensee operations is subleased, the revenue derived from such subleasing shall be credited to the account for "Miscellaneous revenue" - other.

(c) The cost, when incurred by the lessee, of operating and maintaining leased property, shall be charged to the accounts appropriate for the expense if the property were owned.