

STATE OF NORTH DAKOTA

PUBLIC SERVICE COMMISSION

**Public Service Commission
Accounting, Electric and Gas
Rulemaking**

Case No. PU-06-486

STAFF TESTIMONY

November 26, 2007

My name is Mike Diller. I am Director of Accounting, responsible for the commission's accounting and data processing operations and any assigned public utility matters. I have about 24 years of public utility regulatory experience with both the Oklahoma Corporation Commission and now the North Dakota Public Service Commission. I received a Bachelor of Science Degree in Accounting from Oklahoma Christian College in Edmond, Oklahoma in 1981. I am a Certified Public Accountant licensed in the state of Oklahoma, and I am a member of the American Institute of Certified Public Accountants.

I am appearing today to testify in support of the accounting rules proposed by staff, Case No. PU-06-486. The rules require regulated gas and electric companies to use a standard system of accounts and a prescribed method for capitalizing the cost of funds used during the construction of assets. To my knowledge, no one is opposed to these proposed rules.

The regulated gas and electric companies have been using the Federal Energy Regulatory Commission's system of accounts for a long time. The proposed rule simply codifies what is already occurring. The FERC has spent a lot of time over the years developing and refining its system of accounts. Further, most people in the industry recognize the value of using this one standard system. Using a standard system of accounts ensures comparability of financial data from one year to the next as well as between different entities. Using a standard system of accounts makes auditing, training of employees, finding information and the preparation of financial statements easier and more productive.

With regard to the capitalization of Allowance for Funds Used During Construction (AFUDC) by the regulated gas and electric companies of North

Dakota, the AFUDC is nothing new. The only “new” thing about staff’s proposal is the limitation for using AFUDC. The proposed rule does not permit the capitalization of AFUDC on projects costing less than \$10,000 and taking less than 30 days to complete. Staff understands that the current practices of regulated utilities within North Dakota are within this limitation.

The capitalization of AFUDC, or the cost of funds used to construct an asset, is tied to an old regulatory principle known as “used and useful”. The idea behind AFUDC is to match the cost of providing service to the customers using the service. Accordingly, AFUDC provides a method for capitalizing all finance costs related to a particular asset and then amortizing those costs over the in-service life of the asset. In this way, the beneficiaries of the new plant pay for the plant and finance costs rather than charging some previous generation of customers for finance costs that occurred during the construction phase of an asset. The dollar and time limit of this rule recognizes that smaller jobs are occurring on a regular basis and therefore any associated finance costs do not need to be capitalized and are appropriately expensed when incurred.

A small entities analysis under N.D.C.C. section 28-32-08 was prepared with the conclusion that any costs of small entity compliance with this proposed rule are minimal or non-existent.

A regulatory analysis under N.D.C.C. section 28-32-08 was not performed because no requests were received and because the proposed rule is not expected to have an impact on the regulated community in excess of fifty thousand dollars.

A takings assessment under N.D.C.C. section 28-32-09 was prepared with the conclusion that the proposal will not impact the use of private real property.

This concludes my testimony.