**Section 650.120 Accounting Instruction 19**

a) The Note in Item 3 of Accounting Instruction 19, Utility Plant – Components of Construction Cost, is revised to state:

"Note: - The cost of individual items of equipment of small value or of short life, including portable tools and implements, shall not be charged to utility plant accounts unless the correctness of the accounting therefor is verified by current inventories. The cost shall be charged to the appropriate operating expense or clearing accounts, according to the use of such items, or, if such items are consumed directly in construction work, the cost shall be included as part of the cost of the construction unit."

b) In Accounting Instruction 19, "Utility Plant – Components of Construction Cost," Item 17 is deleted (except for the note) and replaced with the following:

" 'Allowance for funds used during construction' ('AFUDC') includes the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used, not to exceed allowances computed in accordance with the formula prescribed in paragraph (a). No AFUDC charges shall be included in these accounts upon expenditures for construction projects that have been abandoned.

1) The formula and elements for the computation of AFUDC shall be:

A(i) = s(S/W) + d(D/(D + P + C)) (1 - S/W)

A(e) = [1 - S/W] [p(P/(D + P + C)) + c (C/(D + P + C))]

|  |  |  |
| --- | --- | --- |
| A(1) | = | Gross allowance for borrowed funds used during construction rate |
| A(e) | = | Allowance for other funds used during construction rate |
| S | = | Average short term debt |
| s | = | Short-term debt interest rate |
| D | = | Short-term debt interest rate |
| d | = | Long-term debt interest rate |
| P | = | Preferred stock |
| p | = | Preferred stock cost rate |
| C | = | Common equity |
| p | = | Common equity cost rate |
| W | = | Average balance in construction work in progress |

2) The rates shall be determined annually except that the rates may be adjusted for current year security issues which affect the weighted average of long-term debt and/or preferred stock or when the return on equity awarded a current rate case exceeds the computational return on equity. The balances for long-term debt, preferred stock, and common equity shall be the actual book balances as of the end of the prior year. The cost rates for long-term debt and preferred stock shall be the weighted average cost. The cost rate for common equity shall be the rate granted common equity in the last rate proceeding before the Commission. If such cost rate is not available, the average rate actually earned during the preceding three years shall be used. The short-term debt balances and related cost and the average balance for construction work in progress shall be estimated for the current year with appropriate adjustments as actual data become available."

(Source: Amended at 22 Ill. Reg. 11722, effective July 1, 1998)