

NORTH CAROLINA GENERAL ASSEMBLY
1977 SESSION

CHAPTER 691
HOUSE BILL 445

AN ACT TO PROVIDE FOR THE FIXING OF UTILITY RATES IN NORTH CAROLINA
BASED UPON THE REASONABLE ORIGINAL COST OF THE PROPERTY OF THE
PUBLIC UTILITY USED AND USEFUL IN PROVIDING SERVICE TO THE PUBLIC.

The General Assembly of North Carolina enacts:

Section 1. G.S. 62-2, entitled "Declaration of policy", is hereby amended to include a new subsection (5) as shown below and renumbering of present subsections (5), (6), (7), and (8) to (6), (7), (8), and (9) respectively:

"(5) To assure that facilities necessary to meet future growth can be financed by the utilities operating in this State on terms which are reasonable and fair to both the customers and existing investors of such utilities; and to that end to authorize fixing of rates in such a manner as to result in lower costs of new facilities and lower rates over the operating lives of such new facilities by making provisions in the rate-making process for the investment of public utilities in plant under construction."

Sec. 2. G.S. 62-133, entitled "How rates fixed", is hereby amended by rewriting subsections (b)(1) and (b)(4) of said G.S. 62-133 and by adding a new subsection (b)(5), and by renumbering and rewriting present subsection (b)(5) as subsection (b)(6), said rewritten and new subsections to read as follows:

"(1) Ascertain the reasonable original cost of the public utility's property used and useful, or to be used and useful within a reasonable time after the test period, in providing the service rendered to the public within this State, less that portion of the cost which has been consumed by previous use recovered by depreciation expense plus the reasonable original cost of investment in plant under construction (construction work in progress). In ascertaining the cost of the public utility's property, construction work in progress as of the effective date of this subsection shall be excluded until such plant comes into service but reasonable and prudent expenditures for construction work in progress after the effective date of this subsection shall be included subject to the provisions of subparagraph (b)(5) of this section.

(4) Fix such rate of return on the cost of the property ascertained pursuant to paragraph (1) as will enable the public utility by sound management to produce a fair return for its shareholders, considering changing economic conditions and other factors, as they then exist, to maintain its facilities and services in accordance with the reasonable requirements of its customers in the territory covered by its franchise, and to compete in the market for capital funds on terms which are reasonable and which are fair to its customers and to its existing investors.

(5) Require each public utility to discontinue capitalization of the composite carrying cost of capital funds used to finance construction (allowance for funds) on the construction work in progress included in its rate base upon the effective date of the first and each subsequent general rate order issued with

respect to it after the effective date of this subsection; allowance for funds may be capitalized with respect to expenditures for construction work in progress not included in the utility's property upon which the rates were fixed. In determining net operating income for return, the commission shall not include any capitalized allowance for funds used during construction on the construction work in progress included in the utility's rate base.

- (6) Fix such rates to be charged by the public utility as will earn in addition to reasonable operating expenses ascertained pursuant to paragraph (3) of this subsection the rate of return fixed pursuant to paragraphs (4) and (5) on the cost of the public utility's property ascertained pursuant to paragraph (1)."

Sec. 3. G.S. 62-133(c) is amended by deleting said subsection in its entirety and substituting in lieu thereof the following:

"(c) The original cost of the public utility's property, including its construction work in progress, shall be determined as of the end of the test period used in the hearing and the probable future revenues and expenses shall be based on the plant and equipment in operation at that time. The test period shall consist of 12 months' historical operating experience prior to the date the rates are proposed to become effective, but the commission shall consider such relevant, material and competent evidence as may be offered by any party to the proceeding tending to show actual changes in costs, revenues or the cost of the public utility's property used and useful, or to be used and useful within a reasonable time after the test period, in providing the service rendered to the public within this State, including its construction work in progress, which is based upon circumstances and events occurring up to the time the hearing is closed."

Sec. 4. This act shall become effective with respect to rate applications filed with the North Carolina Utilities Commission on and after July 1, 1979.

In the General Assembly read three times and ratified, this the 23rd day of June, 1977.