June 14, 2006

Ric Campbell, Chmn.
Utah Public Service Commission
Heber M. Wells Bldg. -- 4th Flr., P.O. Box 45585
Salt Lake City, Utah 84145-0585

Dear Mr. Campbell,

The Allowance for Funds Used During Construction (AFUDC) is a generic term for non-cash earnings used in utility accounting. This term along with Allowance for Equity Funds Used During Construction, Capitalized Interest, etc. was originally envisioned in the mid 1940's to reward utilities in rate cases somewhat long after the allowance, etc. was posted on the utility's accounting books. It increased their capitalization amount. Even though it was a non-cash earning, there had to be an offsetting expense of the same amount. Hence, AFUDC, etc. came to be known as an expense. In addition, the non-cash earnings aspect helped to increase overall earnings. This in turn made the company's earnings look better to the general public who bought stock in these companies.

What has changed in 50 years - For one thing, Holding Companies have sprung up everywhere. And, if there is one thing they want from their subsidiaries, it is cash in the form of dividend, cash award, etc. Most, but not all, of these Holding Companies are not interested in posting non-cash earnings to their accounting books. In retrospect, all these non-cash earnings really do is to make it appear the subsidiary is making money (when in fact they may be losing money) while the dividend, cash award, etc. enriches the Holding Co.

This whole business is somewhat similar to what we currently see in headlines, etc. concerning companies who have subsidiaries that establish a worthless asset, expense it and create a non-cash earning which is transferred to the Holding Co. thus enhancing its earnings. The worst offenders seem to have done this on a massive scale.

For these reasons (and the confusion non-cash earnings create) I suggest they (AFUDC, etc.) be eliminated.

Ken Sharp
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