Witness: J. Robert Malko
Rocky Mountain Power
Exhibit UIEC-_____ (JRM-4)
Docket No. 10-035-124

Principles of Public Utility Rates

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tion and with reasonable allowances for working capital.[2] But this definition is obviously indefinite and is even subject to minor violations in actual practice. In consequence, the amount of the rate base may be in dispute even among parties all of whom would accept an actual-cost principle of rate control.[3]

A full and critical review of all of these disputes would fill a large volume and is beyond the scope of a book so largely limited to the basic criteria of reasonable rates. But at least four problems of application are of special theoretical interest, and they will be discussed briefly if only to give to the type of rate base here under review enough definiteness to permit of a comparison of its economic merits with those of a present-value rate base. These problems concern (a) the choice between "original" cost and subsequent "acquisition" cost, (b) the allowance for interest during construction, (c) the inclusion or exclusion of capital outlays previously charged off as operating expenses under earlier accounting conventions, and—most important of all—(d) the allowances for depreciation, both as an annual operating charge and as a deduction from cost new in the measurement of the rate base.

[2] This definition conforms to general regulatory usage in recent years. The standard has been called by various names, used sometimes interchangeably, sometimes with distinctions. "Original cost," in public-utility accounting, has now become a term of art. It means the cost of an asset when first devoted to the public service rather than the cost to a transferee company. "Historical cost," though once used in special senses, has now become a term for *any* cost which, having already been incurred, has now become a "matter of history." The "prudent-investment" or "net-investment" principle seems now to be used interchangeably with the "actual-cost" principle despite earlier suggested distinctions. "Prudent" imports the requirement that the investment, in order to gain recognition in the rate base, must have been prudently incurred in the light of foresight rather than of hindsight. See Justice Brandeis's comment on this point in his concurring opinion in Southwestern Bell Telephone Co. v. Public Service Commission of Missouri, *supra*, note 1. "Net" means net of deductions either for capital investments already recouped from revenues charged to depreciation or amortization, or else for asset depreciation already sustained—an obvious ambiguity. "Investment" refers to the capital funds contributed by the company to the public service as distinct from the current values of the assets acquired by these funds.

[3] A dispute of this nature was the basis of Justice Reed's dissent from the decision of the Supreme Court in Federal Power Commission v. Hope Natural Gas Co., 320 U.S. 591, 620–624 (1944). While Justice Reed phrased his dissent as one in support of the traditional fair-value standard, he raised no objection to the Federal Power Commission's refusal to recognize replacement costs rather than original costs. Instead, he declined to go along with the Court in sustaining the Commission's rate order despite its refusal to include, as a legitimate item of actual capital cost, the $17,000,000 of well-drilling expenses and other outlays that the company had previously "conservatively" charged to operating expenses under its earlier accounting practices. See pp. 180–183, *infra*.