

**BEFORE THE OREGON PUBLIC UTILITY COMMISSION**

**UE 177(4)**

In the Matter of )  
 )  
PACIFICORP, dba PACIFIC POWER & )  
LIGHT COMPANY )  
 )  
Filing of tariffs establishing automatic )  
adjustment clause under the terms of )  
SB 408. )

**EXHIBIT ICNU/105**

**EXCERPT OF WORKPAPERS FOR**

**PACIFICORP TAXES AUTHORIZED TO BE COLLECTED IN RATES FOR THE**

**CALENDAR YEAR ENDED DECEMBER 31, 2009**

**February 25, 2011**

RESULTS OF OPERATIONS SUMMARY

Description of Account Summary:	Ref	UNADJUSTED RESULTS			OREGON	
		TOTAL	OTHER	OREGON	ADJUSTMENTS	ADJ TOTAL
1 Operating Revenues						
2 General Business Revenues	2.3	3,484,413,565	2,524,984,932	959,448,633	26,961,632	986,410,266
3 Interdepartmental	2.3	0	0	0	0	0
4 Special Sales	2.3	643,321,157	467,802,659	175,518,497	66,390,247	241,908,744
5 Other Operating Revenues	2.4	226,031,858	167,108,230	58,923,428	(19,418,821)	39,504,607
6 Total Operating Revenues	2.4	4,353,766,380	3,159,875,822	1,193,890,559	73,933,059	1,267,823,617
7						
8 Operating Expenses:						
9 Steam Production	2.5	898,300,862	661,065,461	237,235,401	23,610,857	260,846,258
10 Nuclear Production	2.6	0	0	0	0	0
11 Hydro Production	2.7	37,924,259	27,500,515	10,423,744	204,364	10,628,108
12 Other Power Supply	2.9	1,023,694,683	785,018,746	238,675,937	74,188,543	312,864,480
13 Transmission	2.10	172,874,522	125,377,120	47,497,402	5,309,840	52,807,242
14 Distribution	2.12	215,468,741	145,877,065	69,591,676	1,483,958	71,075,634
15 Customer Accounting	2.12	93,785,007	62,286,548	31,498,459	854,031	32,352,491
16 Customer Service & Infor	2.13	71,462,744	58,944,760	12,517,983	(8,511,568)	4,006,417
17 Sales	2.13	0	0	0	0	0
18 Administrative & General	2.14	162,619,511	111,847,848	50,771,663	(3,652,426)	47,119,237
19						
20 Total O & M Expenses	2.14	2,676,130,329	1,977,918,063	698,212,266	93,487,600	791,699,866
21						
22 Depreciation	2.16	464,027,603	328,370,057	135,657,546	16,950,225	152,607,771
23 Amortization	2.17	43,698,570	31,166,635	12,531,935	538,587	13,070,521
24 Taxes Other Than Income	2.17	123,877,487	73,372,722	50,504,764	2,203,874	52,708,638
25 Income Taxes - Federal	2.20	-169,109,544	-132,733,940	(36,375,604)	(22,373,158)	(58,746,762)
26 Income Taxes - State	2.20	-22,580,392	-17,906,072	(4,674,321)	(1,276,008)	(5,950,327)
27 Income Taxes - Def Net	2.19	468,357,480	337,496,150	130,861,330	(14,892,899)	115,968,432
28 Investment Tax Credit Adj.	2.17	(1,874,204)	(1,874,204)	0	0	0
29 Misc Revenue & Expense	2.4	(5,975,707)	(4,898,387)	(1,077,320)	(784,706)	(1,862,026)
30						
31 Total Operating Expenses	2.20	3,576,551,621	2,590,911,025	985,640,596	73,853,517	1,059,494,113
32						
33 Operating Revenue for Return		777,214,760	568,964,797	208,249,963	79,541	208,329,504
34						
35 Rate Base:						
36 Electric Plant in Service	2.30	18,878,549,488	13,459,410,020	5,419,139,467	320,502,982	5,739,642,449
37 Plant Held for Future Use	2.31	14,512,871	10,693,090	3,819,781	(3,819,781)	(0)
38 Misc Deferred Debits	2.33	143,905,956	126,037,839	17,868,117	843,574	18,711,691
39 Elec Plant Acq Adj	2.31	63,606,583	46,123,875	17,482,708	0	17,482,708
40 Nuclear Fuel	2.31	0	0	0	0	0
41 Prepayments	2.32	40,751,708	28,596,058	12,155,650	0	12,155,650
42 Fuel Stock	2.32	146,168,727	108,293,104	37,875,623	12,184,899	50,060,513
43 Material & Supplies	2.32	176,817,538	124,748,005	52,069,532	0	52,069,532
44 Working Capital	2.33	55,815,810	39,645,163	16,170,646	1,014,859	17,185,505
45 Weatherization Loans	2.31	30,601,115	30,601,910	(795)	0	(795)
46 Miscellaneous Rate Base	2.34	2,644,176	1,884,010	760,166	0	760,166
47						
48 Total Electric Plant		19,553,373,971	13,976,033,075	5,577,340,896	330,726,523	5,908,067,419
49						
50 Rate Base Deductions:						
51 Accum Prov For Depr	2.38	(6,488,872,383)	(4,534,723,061)	(1,954,149,322)	(20,600,001)	(1,974,749,323)
52 Accum Prov For Amort	2.39	(419,600,766)	(295,500,691)	(124,100,075)	(123,535)	(124,223,610)
53 Accum Def Income Taxes	2.35	(1,864,969,436)	(1,343,780,547)	(521,188,889)	(30,043,635)	(551,232,524)
54 Unamortized ITC	2.35	(8,231,406)	(2,887,823)	(5,343,583)	0	(5,343,583)
55 Customer Adv for Const	2.34	(17,811,144)	(15,379,172)	(2,431,972)	624,339	(1,807,634)
56 Customer Service Deposits	2.34	0	0	0	0	0
57 Misc. Rate Base Deductions	2.34	(58,590,707)	(42,590,941)	(15,999,766)	(4,256,310)	(20,256,076)
58						
59 Total Rate Base Deductions		(8,858,075,842)	(6,234,862,235)	(2,623,213,607)	(54,399,142)	(2,677,612,750)
60						
61 Total Rate Base		10,695,298,129	7,741,170,840	2,954,127,289	276,327,380	3,230,454,669
62						
63 Return on Rate Base		7.267%		7.049%		6.449%
64						
65 Return on Equity		8.626%		8.226%		7.017%
66 Net Power Costs		1,042,847,444		267,716,963		279,634,957
67 100 Basis Points in Equity:						
68 Revenue Requirement Impact		85,667,185		23,661,965		25,875,292
69 Rate Base Decrease		(684,652,697)		(194,555,017)		(231,147,997)

PacifiCorp  
Rule (4)(d) Limitation  
For the Calendar Year Ended December 31, 2009

Item	Oregon Allocated		System Regulated	
Tax Depreciation: PacifiCorp	F2-4	(417,546,626)	F2-1	(1,502,111,032)
Tax Depreciation: Pacific Minerals, Inc.	TP3-1	(6,492,093)	TP3-1	(25,085,337)
Less: Tax Depreciation on Rolling Hills	F3-4	16,614,678	F3-4	16,614,678
<b>Subtotal: Tax Depreciation</b>		<b>(407,423,981)</b>		<b>(1,510,581,691)</b>
Book Depreciation: PacifiCorp	A	157,821,591	A	527,311,471
Book Depreciation: Pacific Minerals, Inc.	TP3-1	3,959,424	TP3-1	15,299,289
Book-Tax Difference: Depreciation		(245,642,969)		(983,270,220)
Blended Federal & State Statutory Tax Rate		37.951%		37.951%
Deferred Income Tax Expense on Depreciation before Depreciation Flow-Through		93,223,962		373,160,881
Depreciation Flow-Through	F4-6	5,189,436	F4-24	6,390,024
<b>Taxes Paid Limitation: Deferred Tax on Public Utility Property Depreciation (Rule (4)(d))</b>		<b>98,413,398</b>		<b>379,510,905</b>

Allocation Group	Oregon Allocated		System Regulated	
Steam Depreciation	F5-1	30,159,487	F5-1	109,523,852
Hydro Depreciation	F5-1	4,246,638	F5-1	16,450,360
Other Production Depreciation	F5-1	26,664,012	F5-1	97,185,416
Transmission Depreciation	F5-1	17,286,631	F5-1	62,893,266
Distribution Depreciation	F5-1	46,693,769	F5-1	143,343,279
General Depreciation	F5-1	10,607,009	F5-1	36,631,512
Limited Term Plant: Software Development	F5-2	7,019,348	F5-2	23,979,373
Plant Acquisition Adjustment	F5-3	1,506,038	F5-3	5,479,353
General Vehicles	***	3,036,056	***	13,686,246
Mining Depreciation & Geothermal Depreciation	***	2,366,629	***	9,144,700
Other Non-Utility Expense	***	0	***	47,374
Steam Depreciation: Oregon Extra	F5-2	10,309,050	F5-2	10,461,954
Permanent Portion of Book Depreciation	TP3-1	83,280	TP3-1	284,666
Other Production Depreciation: Rolling Hills	TP5-10	(2,155,356)	TP5-10	0
<b>Book Depreciation &amp; Amortization Allocable to Tax Depreciation</b>		<b>157,821,591</b>		<b>527,311,471</b>
Limited Term Plant: Other Intangible Assets		2,570,437		8,782,332
<b>Total Book Depreciation and Amortization in PowerTax</b>		<b>160,392,028</b>		<b>536,093,803</b>
Property Leases, Unrecovered Plant, Etc.	F5-3	1,437,112	F5-3	5,457,511
<b>Book Depreciation &amp; Amortization: Results of Operations</b>		<b>161,829,140</b>		<b>541,551,314</b>
<b>Total Depreciation Expense: Results of Operations, Page 2.16, Line 990 (SUM 1)</b>	F5-2	<b>135,657,546</b>	F3-2	<b>464,027,605</b>
<b>Total Amortization Expense: Results of Operations, Page 2.17, Line 1070 (SUM 2)</b>	F3-3	<b>12,531,935</b>	F3-3	<b>43,698,669</b>
<b>Total Depreciation &amp; Amortization Expense</b>		<b>148,189,481</b>		<b>507,726,174</b>

\*\*\*These amounts are included in cost categories other than depreciation/amortization for regulatory reporting purposes.



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Filing of tariffs establishing automatic )  
adjustment clause under the terms of )  
SB 408. )

**EXHIBIT ICNU/106**

**EXCERPT OF PACIFICORP'S  
SECURITIES & EXCHANGE COMMISSION 2009 10-K**

**February 25, 2011**

(12) **Income Taxes**

Income tax expense (benefit) consists of the following for the years ended December 31 (in millions):

	<u>2009</u>	<u>2008</u>	<u>2007</u>
<b>Current:</b>			
Federal	\$ (417)	\$ (64)	\$ 162
State	6	(6)	19
Total	<u>(411)</u>	<u>(70)</u>	<u>181</u>
<b>Deferred:</b>			
Federal	619	276	41
State	30	36	6
Total	<u>649</u>	<u>312</u>	<u>47</u>
<b>Investment tax credits</b>	<u>(4)</u>	<u>(4)</u>	<u>(8)</u>
<b>Total income tax expense</b>	<u>\$ 234</u>	<u>\$ 238</u>	<u>\$ 220</u>

A reconciliation of the federal statutory income tax rate to the effective income tax rate applicable to income before income tax expense is as follows for the years ended December 31:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Federal statutory tax rate	35%	35%	35%
State taxes, net of federal benefit	3	3	3
Tax credits <sup>(1)</sup>	(6)	(5)	(3)
Other	(2)	1	(2)
<b>Effective income tax rate</b>	<u>30%</u>	<u>34%</u>	<u>33%</u>

(1) Primarily attributable to the impact of federal renewable electricity production tax credits related to qualifying wind-powered generating facilities that extend 10 years from the date the facilities were placed in service.

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**EXHIBIT ICNU/107**

**EXCERPT OF PACIFICORP'S  
2009 FERC FORM 1 INCOME STATEMENT**

**February 25, 2011**

Name of Respondent PacifiCorp	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 04/14/2010	Year/Period of Report End of <u>2009/Q4</u>
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**STATEMENT OF INCOME**

- Quarterly**
- Report in column (c) the current year to date balance. Column (c) equals the total of adding the data in column (g) plus the data in column (i) plus the data in column (k). Report in column (d) similar data for the previous year. This information is reported in the annual filing only.
  - Enter in column (e) the balance for the reporting quarter and in column (f) the balance for the same three month period for the prior year.
  - Report in column (g) the quarter to date amounts for electric utility function; in column (i) the quarter to date amounts for gas utility, and in column (k) the quarter to date amounts for other utility function for the current year quarter.
  - Report in column (h) the quarter to date amounts for electric utility function; in column (j) the quarter to date amounts for gas utility, and in column (l) the quarter to date amounts for other utility function for the prior year quarter.
  - If additional columns are needed, place them in a footnote.

- Annual or Quarterly if applicable**
- Do not report fourth quarter data in columns (e) and (f)
  - Report amounts for accounts 412 and 413, Revenues and Expenses from Utility Plant Leased to Others, in another utility column in a similar manner to a utility department. Spread the amount(s) over lines 2 thru 26 as appropriate. Include these amounts in columns (c) and (d) totals.
  - Report amounts in account 414, Other Utility Operating Income, in the same manner as accounts 412 and 413 above.

Line No.	Title of Account (a)	(Ref.) Page No. (b)	Total Current Year to Date Balance for Quarter/Year (c)	Total Prior Year to Date Balance for Quarter/Year (d)	Current 3 Months Ended Quarterly Only No 4th Quarter (e)	Prior 3 Months Ended Quarterly Only No 4th Quarter (f)
1	UTILITY OPERATING INCOME					
2	Operating Revenues (400)	300-301	4,353,766,380	4,494,585,986		
3	Operating Expenses					
4	Operation Expenses (401)	320-323	2,279,099,664	2,593,626,077		
5	Maintenance Expenses (402)	320-323	394,816,343	374,652,182		
6	Depreciation Expense (403)	336-337	473,163,481	416,636,387		
7	Depreciation Expense for Asset Retirement Costs (403.1)	336-337				
8	Amort. & Depl. of Utility Plant (404-405)	336-337	32,391,772	40,332,443		
9	Amort. of Utility Plant Acq. Adj. (406)	336-337	5,479,353	5,479,353		
10	Amort. Property Losses, Unrecov Plant and Regulatory Study Costs (407)		5,149,968	5,107,035		
11	Amort. of Conversion Expenses (407)					
12	Regulatory Debits (407.3)		1,549,004	7,057,628		
13	(Less) Regulatory Credits (407.4)					
14	Taxes Other Than Income Taxes (408.1)	262-263	123,877,487	112,424,490		
15	Income Taxes - Federal (409.1)	262-263	472,156,577	83,683,133		
16	- Other (409.1)	262-263	2,026,201	8,319,652		
17	Provision for Deferred Income Taxes (410.1)	234, 272-277	1,368,522,890	669,322,953		
18	(Less) Provision for Deferred Income Taxes-Cr. (411.1)	234, 272-277	688,511,583	356,785,266		
19	Investment Tax Credit Adj. - Net (411.4)	266	-1,874,204	-1,874,204		
20	(Less) Gains from Disp. of Utility Plant (411.6)					
21	Losses from Disp. of Utility Plant (411.7)					
22	(Less) Gains from Disposition of Allowances (411.8)		3,790,891	4,889,027		
23	Losses from Disposition of Allowances (411.9)					
24	Accretion Expense (411.10)					
25	TOTAL Utility Operating Expenses (Enter Total of lines 4 thru 24)		3,515,690,486	3,769,087,216		
26	Net Util Oper Inc (Enter Tot line 2 less 25) Carry to Pg 117, line 27		838,075,894	725,498,770		





Name of Respondent PacifiCorp	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr) 04/14/2010	Year/Period of Report 2009/Q4
FOOTNOTE DATA			

**Schedule Page: 114 Line No.: 6 Column: c**

Vehicle depreciation is charged to functional accounts. The following table summarizes the vehicle depreciation expense that was charged to the functional accounts.

	Years Ended December 31,	
	2009	2008
Vehicle Depreciation	\$ 13,886,246	\$ 13,465,822

**Schedule Page: 114 Line No.: 7 Column: c**

PacifiCorp records the depreciation expense of asset retirement obligations as either a regulatory asset or liability.

**Schedule Page: 114 Line No.: 14 Column: c**

Payroll taxes are charged to functional accounts, which is consistent with where labor is charged. The following table summarizes the payroll tax expense that was charged to the functional accounts.

	Years Ended December 31,	
	2009	2008
Payroll Tax Expense	\$ 38,397,330	\$ 37,428,777

**Schedule Page: 114 Line No.: 15 Column: c**

The credit reported in the current year tax expense is primarily attributable to a provision for net operating loss (tax basis) and tax credit carrybacks for the calendar year ended December 31, 2009. PacifiCorp's net operating loss (tax basis) for calendar year ended December 31, 2009 is primarily attributable to accelerated tax depreciation, tax bonus depreciation taken in excess of book depreciation, and repairs deduction.

**Schedule Page: 114 Line No.: 15 Column: d**

The credit reported in the prior year tax expense is primarily attributable to a provision for net operating loss (tax basis) and tax credit carrybacks for the calendar year ended December 31, 2008. PacifiCorp's net operating loss (tax basis) is primarily attributable to accelerated tax depreciation and tax bonus depreciation taken in excess of book depreciation.

**Schedule Page: 114 Line No.: 16 Column: c**

See footnote line 15, column c

**Schedule Page: 114 Line No.: 16 Column: d**

See footnote line 15, column d

**Schedule Page: 114 Line No.: 24 Column: c**

PacifiCorp records the accretion expense of asset retirement obligations as either a regulatory asset or liability.

**BEFORE THE OREGON PUBLIC UTILITY COMMISSION**

**UE 177(4)**

In the Matter of )  
 )  
PACIFICORP, dba PACIFIC POWER & )  
LIGHT COMPANY )  
 )  
Filing of tariffs establishing automatic )  
adjustment clause under the terms of )  
SB 408. )

**EXHIBIT ICNU/108**

**EXCERPT OF  
FEDERAL TAX REGULATION 1.167(a)-11**

**February 25, 2011**

## Federal Tax Regulations (TRC Version), Regulation, §1.167(a)-11, Internal Revenue Service, Depreciation based on class lives and asset depreciation ranges for property placed in service after December 31, 1970

[Click to open document in a browser](#)



Reg. §1.167(a)-11 does not reflect P.L. 97-34.



### (a) In general

(1) **Summary.**— This section provides an asset depreciation range and class life system for determining the reasonable allowance for depreciation of designated classes of assets placed in service after December 31, 1970. The system is designed to minimize disputes between taxpayers and the Internal Revenue Service as to the useful life of property, and as to salvage value, repairs, and other matters. The system is optional with the taxpayer. The taxpayer has an annual election. Generally, an election for a taxable year must apply to all additions of eligible property during the taxable year of election, but does not apply to additions of eligible property in any other taxable year. The taxpayer's election, made with the return for the taxable year, may not be revoked or modified for any property included in the election. Generally, the taxpayer must establish vintage accounts for all eligible property included in the election, must determine the allowance for depreciation of such property in the taxable year of election, and in subsequent taxable years, on the basis of the asset depreciation period selected, and must apply the first-year convention specified in the election to determine the allowance for depreciation of such property. This section also contains special provisions for the treatment of salvage value, retirements, and the costs of the repair, maintenance, rehabilitation or improvement of property. In general, a taxpayer may not apply any provision of this section unless he makes an election and thereby consents to, and agrees to apply, all the provisions of this section. A taxpayer who elects to apply this section does, however, have certain options as to the application of specified provisions of this section. A taxpayer may elect to apply this section for a taxable year only if for such taxable year he complies with the requirements of paragraph (f)(4) of this section.

(2) **Definitions.**— For the meaning of certain terms used in this section, see paragraphs (b)(2) ("eligible property"), (b)(3) ("vintage account" and "vintage"), (b)(4) ("asset depreciation range", "asset guideline class", "asset guideline period", and "asset depreciation period"), (b)(5)(iii)(c) ("used property"), (b)(6)(i) ("public utility property"), (c)(1)(iv) ("original use"), (c)(1)(v) ("unadjusted basis" and "adjusted basis"), (c)(2)(ii) ("modified half-year convention"), (c)(2)(iii) ("half-year convention"), (d)(1)(i) ("gross salvage value"), (d)(1)(ii) ("salvage value"), (d)(2)(iii) ("repair allowance", "repair allowance percentage", and "repair allowance property"), (d)(2)(vi) ("excluded addition"), (d)(2)(vii) ("property improvement"), (d)(3)(ii) ("ordinary retirement" and "extraordinary retirement"), (d)(3)(vi) ("special basis vintage account"), and (e)(1) ("first placed in service") of this section.

### (b) Reasonable allowance using asset depreciation ranges

(1) **In general.**— The allowance for depreciation of eligible property (as defined in subparagraph (2) of this paragraph) to which the taxpayer elects to apply this section shall be determined as provided in paragraph (c) of this section and shall constitute the reasonable allowance for depreciation of such property under section 167(a).

(2) **Definition of eligible property.**— For purposes of this section, the term "eligible property" means tangible property which is subject to the allowance for depreciation provided by section 167(a) but only if—

- (i) An asset guideline class and asset guideline period are in effect for such property for the taxable year of election (see subparagraph (4) of this paragraph);

(ii) The property is first placed in service (as described in paragraph (e)(1) of this section) by the taxpayer after December 31, 1970 (but see subparagraph (7) of this paragraph for special rule where there is a mere change in the form of conducting a trade or business); and

(iii) The property is either—

(a) Section 1245 property as defined in section 1245(a)(3), or

(b) Section 1250 property as defined in section 1250(c).

See, however, subparagraph (6) of this paragraph for special rule for certain public utility property as defined in section 167(1)(3)(A). Property which meets the requirements of this subparagraph is eligible property even if depreciation with respect to such property, determined in accordance with this section, is allocated to or otherwise required to be reflected in the cost of a capitalized item. The term "eligible property" includes any property which meets the requirements of this subparagraph, whether such property is new property, "used property" (as described in subparagraph (5)(iii)(c) of this paragraph), a "property improvement" (as described in paragraph (d)(2)(vii) of this section), or an "excluded addition" (as described in paragraph (d)(2)(vi) of this section). For the treatment of expenditures for the repair, maintenance, rehabilitation or improvement of certain property, see paragraph (d)(2) of this section.

### **(3) Requirement of vintage accounts**

(i) *In general.*— For purposes of this section, a "vintage account" is a closed-end depreciation account containing eligible property to which the taxpayer elects to apply this section, first placed in service by the taxpayer during the taxable year of election. The "vintage" of an account refers to the taxable year during which the eligible property in the account is first placed in service by the taxpayer. Such an account will consist of an asset, or a group of assets, within a single asset guideline class established pursuant to subparagraph (4) of this paragraph and may contain only eligible property. Each item of eligible property to which the taxpayer elects to apply this section, first placed in service by the taxpayer during the taxable year of election (determined without regard to a convention described in paragraph (c)(2) of this section) shall be placed in a vintage account of the taxable year of election. For rule regarding "special basis vintage accounts" for certain property improvements, see paragraph (d)(2)(viii) and (3)(vi) of this section. Any number of vintage accounts of a taxable year may be established. More than one account of the same vintage may be established for different assets of the same asset guideline class. See paragraph (d)(3)(xi) of this section for special rule for treatment of certain multiple asset and item accounts.

(ii) *Special rule.*— Section 1245 property may not be placed in a vintage account with section 1250 property. Property the original use of which does not commence with the taxpayer may not be placed in a vintage account with property the original use of which commences with the taxpayer. Property described in section 167(f)(2) may not be placed in a vintage account with property not described in section 167(f)(2). Property described in section 179(d)(1) for which the taxpayer elects the allowance for the first taxable year in accordance with section 179(c) may not be placed in a vintage account with property not described in section 179(d)(1) or for which the taxpayer does not elect such allowance for the first taxable year. For special rule for property acquired in a transaction to which section 381(a) applies, see paragraph (e)(3)(i) of this section. For additional rules with respect to accounting for eligible property, see paragraph (e) of this section.

### **(4) Asset depreciation ranges and periods**

(i) *Selection of asset depreciation period.*— The taxpayer's books and records must specify for each vintage account of the taxable year of election—

(a) In the case of vintage account for property in an asset guideline class for which no asset depreciation range is in effect for the taxable year, the asset depreciation period (which shall be equal to the asset guideline period for the assets in such account), or

**(b)** In the case of a vintage account for property in an asset guideline class for which an asset depreciation range is in effect for the taxable year, the asset depreciation period selected by the taxpayer from the asset depreciation range for the assets in such account.

Unless otherwise expressly provided in the establishment thereof, for purposes of this section, the term "asset guideline class" means a category of assets (including "subsidiary assets") for which a separate asset guideline period is in effect for the taxable year as provided in subdivision (ii) of this subparagraph. The "asset depreciation range" is a period of years which extends from 80 percent of the asset guideline period to 120 percent of such period, determined in each case by rounding any fractional part of a year to the nearer of the nearest whole or half year. Except as provided in paragraph (e)(3)(iv) of this section, in the case of an asset guideline class for which an asset depreciation range is in effect, any period within the asset depreciation range which is a whole number of years or a whole number of years plus a half year, may be selected. The term "asset depreciation period" means the period selected from the asset depreciation range, or if no asset depreciation range is in effect for the class, the asset guideline period. The "asset guideline period" is established in accordance with subdivision (ii) of this subparagraph and is the class life under section 167(m). See Revenue Procedure 72-10 [superseded by Rev. Proc. 77-10, which was superseded by Rev. Proc. 83-35, which was superseded by Rev. Proc. 87-56; see ¶310A.01, 310B.01 and 310D.01] for special rules for section 1250 property and property predominately used outside the United States. In general, an asset guideline period, but no asset depreciation range, is in effect for such property.

**(ii) Establishment of asset guideline classes and periods.**— The asset guideline classes and the asset guideline periods, and the asset depreciation ranges determined from such periods, in effect for taxable years ending before the effective date of the first supplemental asset guideline classes, asset guideline periods, and asset depreciation ranges, established pursuant to this section are set forth in Revenue Procedure 72-10 [superseded by Rev. Proc. 77-10, which was superseded by Rev. Proc. 83-35, which was superseded by Rev. Proc. 87-56; see ¶310A.01, 310B.01 and 310D.01]. Asset guideline classes and periods, and asset depreciation ranges, will from time to time be established, supplemented, and revised with express reference to this section, and will be published in the Internal Revenue Bulletin. The asset guideline classes, the asset guideline periods, and the asset depreciation ranges determined from such periods in effect as of the last day of a taxable year of election shall apply to all vintage accounts of such taxable year, except that neither the asset guideline period nor the lower limit of the asset depreciation range for any such account shall be longer than the asset guideline period or the lower limit of the asset depreciation range, as the case may be, for such account in effect as of the first day of the taxable year (or as of such later time in such year as an asset guideline class first established during such year becomes effective). Generally, the reasonable allowance for depreciation of property for any taxable year in a vintage account shall not be changed to reflect any supplement or revision of the asset guideline classes or periods, and asset depreciation ranges, for the taxable year in which the account is established, which occurs after the end of such taxable year. However, if expressly provided in such a supplement or revision, the taxpayer may, at his option in the manner specified therein, apply the revised or supplemented asset guideline classes or periods and asset depreciation ranges to such property for such taxable year and succeeding taxable years.

**(iii) Applicable guideline classes and periods in special situations**

**(a)** An electric or gas utility which would in accordance with Revenue Procedure 64-21 be entitled to use a composite guideline class basis for applying Revenue Procedure 62-21 may, solely with respect to property for which an asset depreciation range is in effect for the taxable year, elect to apply this section on the basis of a composite asset guideline class and asset guideline period determined by applying the provisions of Revenue Procedure 64-21 to such property. The asset depreciation range for such a composite asset guideline class shall be determined by reference to the composite asset guideline period at the beginning of the first taxable year to which the taxpayer elects to apply this section and shall not be changed until such time as major variations in the asset mix or the asset guideline classes or periods justify

some other composite asset guideline period. Except as provided in paragraph (d)(2)(iii) of this section with respect to buildings and other structures, for the purposes of this section, all property in the composite asset guideline class shall be treated as included in a single asset guideline class. If the taxpayer elects to apply this subdivision, the election shall be made on the tax return filed for the first taxable year for which the taxpayer elects to apply this section. An election to apply this subdivision for any taxable year shall apply to all succeeding taxable years to which the taxpayer elects to apply this section, except to the extent the election to apply this subdivision is with the consent of the Commissioner terminated with respect to a succeeding taxable year and all taxable years thereafter.

(b) For purposes of this section, property shall be included in the asset guideline class for the activity in which the property is primarily used. See paragraph (e)(3)(iii) of this section for rule for leased property. Property shall be classified according to primary use even though the activity in which such property is primarily used is insubstantial in relation to all the taxpayer's activities. No change in the classification of property shall be made because of a change in primary use after the end of the taxable year in which property is first placed in service, including a change in use which results in section 1250 property becoming section 1245 property.

(c) An incorrect classification or characterization by the taxpayer of property for the purposes of this section (such as under (b) of this subdivision or under subparagraph (2) or (3)(ii) of this paragraph) shall not cause or permit a revocation of the election to apply this section for the taxable year in which such property was first placed in service. The classification or characterization of such property shall be corrected. All adjustments necessary to the correction shall be made, including adjustments of unadjusted basis, adjusted basis, salvage value, the reserve for depreciation of all vintage accounts affected, and the amount of depreciation allowable for all taxable years for which the period for assessment of tax prescribed in section 6501 has not expired. If because of incorrect classification or characterization property included in an election to apply this section was not placed in a vintage account and no asset depreciation period was selected for the property or the property was placed in a vintage account but an asset depreciation period was selected from an incorrect asset depreciation range, the taxpayer shall place the property in a vintage account and select an asset depreciation period for the account from the correct asset depreciation range.

(d) Generally, except as provided in subparagraph (5)(v)(a) of this paragraph, a taxpayer may not compute depreciation for eligible property first placed in service during the taxable year under a method of depreciation not described in section 167(b)(1), (2), or (3). (If the taxpayer computes depreciation with respect to such property under section 167(k), or amortizes such property, the property must be excluded from the election to apply this section.) (See subparagraph (5)(v)(b) of this paragraph.) However, if the taxpayer establishes to the satisfaction of the Commissioner that a method of depreciation not described in section 167(b)(1), (2), (3), or (k) was adopted for property in the asset guideline class on the basis of a good faith mistake as to the proper asset guideline class for the property, then, unless the requirements of subparagraph (5)(v)(a) of this paragraph are met, the taxpayer must terminate (as of the beginning of the taxable year) such method of depreciation with respect to all eligible property in the asset guideline class which was first placed in service during the taxable year. In such event, the taxpayer's election to apply this section shall include eligible property in the asset guideline class without regard to subparagraph (5)(v)(a) of this paragraph. The provisions of (c) of this subdivision shall apply to the correction in the classification of the property.

(e) If the provisions of section 167(j) apply to require a change in the method of depreciation with respect to an item of section 1250 property in a multiple asset vintage account, the asset shall be removed from the account and placed in a separate item vintage account. The unadjusted basis of the asset shall be removed from the unadjusted basis of the vintage account as of the first day of the taxable year in which the change in method of depreciation is required and the depreciation reserve established for the account shall be reduced by the depreciation allowable for the property computed in the manner prescribed in paragraph (c)(1)

(v)(b) of this section for determination of the adjusted basis of property. See paragraph (d)(3)(vii)(e) of this section for treatment of salvage value when property is removed from a vintage account.

(iv) **Examples.**— The principles of this subparagraph may be illustrated by the following examples:

*Example (1).* Corporation X purchases a bulldozer for use in its construction business. The bulldozer is first placed in service in 1972. Since the bulldozer is tangible property for which an asset guideline class and period have been established, the bulldozer is eligible property. The bulldozer is in asset guideline class 15.1 of Revenue Procedure 72-10, and the asset depreciation range is 4-6 years.

*Example (2).* In 1972, corporation Y first places in service a factory building. Since the factory building is tangible property for which an asset guideline class and period have been established, it is eligible property. The factory building is in asset guideline class 65.11 of Revenue Procedure 72-10. Since no asset depreciation range is in effect for the asset guideline class, the asset depreciation period is the asset guideline period of 45 years. (See subparagraph (5)(vi) of this paragraph for election to exclude certain section 1250 property during transition period.)

*Example (3).* In January of 1971, corporation Y, a calendar year taxpayer, pays or incurs \$2,000 for the rehabilitation and improvement of machine A which was first placed in service in 1969. On January 1, 1971, corporation Y first placed in service machines B and C, each with an unadjusted basis of \$10,000. Machines B and C are eligible property. Machine A would be eligible property but for the fact it was first placed in service prior to January 1, 1971 (that is, machine A is eligible property determined without regard to subparagraph (2)(ii) of this paragraph). Corporation Y elects to apply this section for the taxable year, and adopts the modified half-year convention described in paragraph (c)(2)(ii) of this section, but does not elect to apply the asset guideline class repair allowance described in paragraph (d)(2)(iii) of this section. Machines A, B, and C are in asset guideline class 24.4 under Revenue Procedure 72-10 for which the asset depreciation range is 8 to 12 years. The \$2,000 expended on machine A substantially increases its capacity and is a capital expenditure under sections 162 and 263. The \$2,000 is a property improvement (as defined in paragraph (d)(2)(vii)(b) of this section) which is eligible property. However, corporation Y by mistake treats the property improvement of \$2,000 as a deductible repair. Also by mistake, corporation Y includes machine B in asset guideline class 24.3 under Revenue Procedure 72-10 for which the asset depreciation range is 5 to 7 years. Corporation Y establishes vintage accounts for 1971, and computes depreciation for 1971 and 1972 as follows:

	<i>Dec. 31, 1972, reserve for depreciation</i>	<i>Dec. 31, 1972, adjusted basis</i>
Vintage account for machine B, with an asset depreciation period of 5 years and an unadjusted basis of \$10,000 for which corporation Y adopts the straight line method.....	\$4,000	\$6,000
Vintage account for machine C, with an asset depreciation period of 8 years and an unadjusted basis of \$10,000 for which corporation Y adopts the straight line method.....	2,500	7,500

After audit in 1973 of corporation Y's taxable years 1971 and 1972, it is determined that the \$2,000 paid in 1971 for the rehabilitation and improvement of machine A is a capital expenditure and that machine B is in asset guideline class 24.4. The incorrect classification is corrected. Corporation Y places machine B and the property improvement in a vintage account of 1971 and on its tax return filed for 1973 selects an asset depreciation period of 8 years for that account. Giving effect to the correction in classification of the property in accordance with subdivision (iii)(c) of this subparagraph, at the end of 1972 the unadjusted basis, reserve for depreciation, and adjusted basis of the vintage account for machine B and the property improvement with respect to machine A are \$12,000, \$3,000 and \$9,000, respectively. Corporation Y's deduction of the \$2,000 property improvement in 1971 as a repair expense under section 162 was disallowed. For 1971 and 1972



depreciation deductions are disallowed in the amount of \$500 each year (that is, \$750 excess annual depreciation on machine B minus \$250 annual depreciation on the property improvement).

*Example (4).* (a) In 1971, Corporation X, a calendar year taxpayer, first places in service machines A through M, all of which are eligible property. All the machines except machine A are in asset guideline class 24.3 under Revenue Procedure 72-10. Machine A is in asset guideline class 24.4 under Revenue Procedure 72-10. Machine B has an unadjusted basis equal to 80 percent of the total unadjusted basis of machines B through M. By good faith mistake as to proper classification, corporation X includes both machine A and machine B in asset guideline class 24.4. Corporation X consistently uses the machine hour method of depreciation on all property in asset guideline class 24.4, and for 1971 computes depreciation for machines A and B under that method. Corporation X elects to apply this section for 1971 on the assumption that the election includes machines C through M which are in asset guideline class 24.3. In 1973, upon audit of corporation X's taxable years 1971 and 1972, it is determined that machine B is included in asset guideline class 24.3 and that since for 1971 corporation X computed depreciation on machine B under the machine hour method, in accordance with subparagraph (5)(v)(a) of this paragraph, all property in asset guideline class 24.3 (machines B through M) is excluded from corporation X's election to apply this section for 1971. Although corporation X has consistently used the machine hour method for asset guideline class 24.4, corporation X has not in the past used the machine hour method for machines of the type and function of machines C through M which are in asset guideline class 24.3. Both machine A and machine B are used in connection with the manufacture of wood products. There is reasonable basis for corporation X having assumed that machine B is in asset guideline 24.4 along with machine A to which it is similar. Corporation X establishes to the satisfaction of the Commissioner that it used the machine hour method for machine B on the basis of a good faith mistake as to the proper classification of the machine. Corporation X may, at its option (see subparagraph (5)(v) of this paragraph), terminate the machine hour method of depreciation for machine B as of the beginning of 1971, and in that event corporation X's election to apply this section for 1971 will apply to machines B through M without regard to subparagraph (5)(v)(a) of this paragraph. The adjustments provided in subdivision (iii)(c) of this subparagraph will be made as a result of the correction in classification of property. If corporation X does not terminate the machine hour method with respect to machine B, machines B through M must be excluded from the election to apply this section (see subparagraph (5)(v) of this paragraph.)

(b) The facts are the same as in (a) of this example except that machine B has an unadjusted basis equal to only 65 percent of the total unadjusted basis of machines B through M. In this case, corporation X must either terminate the machine hour method of depreciation with respect to asset B (since the provisions of subparagraph (5)(v) of this paragraph do not permit the exclusion of the property from the election to apply this section) or otherwise comply with the provisions of subparagraph (5)(v) of this paragraph.

(See paragraph (c)(1)(iv) for limitation on methods which may be adopted for property included in the election to apply this section.)

### **(5) Requirements of election**

(i) *In general.*— Except as otherwise provided in paragraph (d)(2) of this section dealing with expenditures for the repair, maintenance, rehabilitation or improvement of certain property, no provision of this section shall apply to any property other than eligible property to which the taxpayer elects in accordance with this section, to apply this section. For the time and manner of election, and certain conditions to an election, see paragraph (f) of this section. Except as otherwise provided in subparagraph (4)(iii) of this paragraph, subdivision (v) of this subparagraph, and in subparagraph (6)(iii) of this paragraph, a taxpayer's election to apply this section may not be revoked or modified after the last day prescribed for filing the election. Thus, for example, after such day, a taxpayer may not cease to apply this section to property included in the election, establish different vintage accounts for the taxable year of election, select a different period from

the asset depreciation range for any such account, or adopt a different first-year convention for any such account.

**(ii) Property required to be included in election.**— Except as otherwise provided in subdivision (iii) of this subparagraph dealing with certain "used property", in subdivision (iv) of this subparagraph dealing with "section 38 property", in subdivision (v) of this subparagraph dealing with property subject to special depreciation or amortization, in subdivision (vi) of this subparagraph dealing with certain section 1250 property, in subdivision (vii) of this subparagraph dealing with certain subsidiary assets, and in paragraph (e)(3)(i) and (iv) of this section dealing with transactions to which section 381(a) applies, if the taxpayer elects to apply this section to any eligible property first placed in service by the taxpayer during the taxable year of election, the election shall apply to all such eligible property, whether placed in service in a trade or business or held for production of income.

**(iii) Special 10 percent used property rule**

(a) If (1) the unadjusted basis of eligible used section 1245 property (as defined in (c) of this subdivision) first placed in service by the taxpayer during the taxable year of election, for which no specific used property asset guideline class (as defined in (c) of this subdivision) is in effect for the taxable year, exceeds (2) 10 percent of the unadjusted basis of all eligible section 1245 property first placed in service during the taxable year of election, the taxpayer may exclude all (but not less than all) the property described in (a)(1) of this subdivision from the election to apply this section.

(b) If (1) the unadjusted basis of eligible used section 1250 property first placed in service by the taxpayer during the taxable year of election, for which no specific used property asset guideline class is in effect for the taxable year, exceeds (2) 10 percent of the unadjusted basis of all eligible section 1250 property first placed in service during the taxable year of election, the taxpayer may exclude all (but not less than all) the property described in (b)(1) of this subdivision from the election to apply this section.

(c) For the purposes of this section, the term "used property" means property the original use of which does not commence with the taxpayer. Solely for the purpose of determining whether the 10 percent rule of this subdivision is satisfied, (1) eligible used property first placed in service during the taxable year and excluded from the election to apply this section pursuant to subdivision (v)(a) of this subparagraph and (2) eligible property acquired during the taxable year in a transaction to which section 381(a) applies, shall all be treated as used property regardless of whether such property would be treated as new property under section 167(c) and the regulations thereunder. The term "specific used property asset guideline class" means a class established in accordance with subparagraph (4) of this paragraph solely for used property primarily used in connection with the activity to which the class relates.

**(iv) Property subject to investment tax credit.**— The taxpayer may exclude from an election to apply this section all, or less than all, units of eligible property first placed in service during the taxable year which is—

(a) "Section 38 property" as defined in section 48(a) which meets the requirements of section 49 and which is not property described in section 50, or

(b) Property to which section 47(a)(5)(B) applies which would be section 38 property but for section 49 which is placed in service to replace section 38 property (other than property described in section 50) disposed of prior to August 15, 1971.

**(v) Property subject to special method of depreciation or amortization**

(a) In the case of eligible property first placed in service in a taxable year of election (and not otherwise properly excluded from an election to apply this section) the taxpayer may not compute depreciation for any of such property in the asset guideline class under a method

not described in section 167(b)(1), (2), (3) or (k) unless he (1) computes depreciation under a method or methods not so described for eligible property first placed in service in the taxable year in the asset guideline class with an unadjusted basis at least equal to 75 percent of the unadjusted basis of all eligible property first placed in service in the taxable year in the asset guideline class and (2) agrees to continue to depreciate such property under such method or methods until the consent of the Commissioner is obtained to a change in method. The consent of the Commissioner must be obtained by filing Form 3115 with the Commissioner of Internal Revenue, Washington, D.C. 20224, within the first 180 days of the taxable year for which the change is desired. If for the taxable year of election the taxpayer computes depreciation under any method not described in section 167(b)(1), (2), (3) or (k) for any eligible property (other than property otherwise properly excluded from an election to apply this section) first placed in service during the taxable year, an election to apply this section for the taxable year shall not include such property or any other eligible property in the same asset guideline class as such property. With respect to a taxable year beginning before January 1, 1973, if the taxpayer has adopted a method of depreciation which is not permitted under this subdivision, the taxpayer may under this section adopt a method of depreciation permitted under this subdivision or otherwise comply with the provisions of this subdivision.

(b) An election to apply this section shall not include eligible property for which, for the taxable year of election, the taxpayer computes depreciation under section 167(k), or computes amortization under section 169, 184, 185, 187, 188 or paragraph (b) or §1.162-11. If the taxpayer has elected to apply this section to eligible property described in section 167(k), 169, 184, 185, or 187 and the taxpayer thereafter computes depreciation or amortization for such property for any taxable year in accordance with section 167(k), 169, 184, 185, or 187, then the election to apply this section to such property shall terminate as of the beginning of the taxable year for which depreciation or amortization is computed under such section. Application of this section to the property for any period prior to the termination date will not be affected by the termination. The unadjusted basis of the property shall be removed as of the termination date from the unadjusted basis of the vintage account. The depreciation reserve established for the account shall be reduced by the depreciation allowable for the property, computed in the manner prescribed in paragraph (c)(1)(v)(b) of this section for determination of the adjusted basis of the property. See paragraph (d)(3)(vii)(e) of this section for treatment of salvage value when property is removed from a vintage account.

**(vi) Certain section 1250 property**

(a) The taxpayer may exclude from an election to apply this section all, or less than all, items of eligible section 1250 property first placed in service during the taxable year of election provided that—

(1) The item is first placed in service before the earlier of the effective date of the first supplemental asset guideline class including such property established in accordance with subparagraph (4)(ii) of this paragraph, or January 1, 1974, and

(2) The taxpayer establishes that a useful life shorter than the asset guideline period in effect on January 1, 1971, for such item of property is justified for such taxable year.

A useful life shorter than the asset guideline period in effect on January 1, 1971, will be considered justified only if such life is justified in accordance with the provisions of Revenue Procedure 62-21 (including all modifications, amendments or supplements thereto as of January 1, 1971), determined without application of the minimal adjustment rule in section 4, Part II, of Revenue Procedure 65-13. If an item of section 1250 property is excluded from an election to apply this section pursuant to this subdivision, any elevator or escalator which is a part of such item shall also be excluded from the election.

(b) If the taxpayer excludes an item of section 1250 property from an election to apply this section in accordance with this subdivision, the useful life justified under Revenue Procedure

62-21 in accordance with this subdivision for the taxable year of exclusion will be treated as justified for such item of section 1250 property for the taxable year of the exclusion and all subsequent taxable years.

**(vii) *Subsidiary assets.***— The taxpayer may exclude from an election to apply this section all (but not less than all) subsidiary assets first placed in service during the taxable year of election in an asset guideline class, provided that—

(a) the unadjusted basis of eligible subsidiary assets first placed in service during the taxable year in the class is as much as 3 percent of the unadjusted basis of all eligible property first placed in service during the taxable year in the class, and

(b) such subsidiary assets are first placed in service by the taxpayer before the earlier of (1) the effective date of the first supplemental asset guideline class including such subsidiary assets established in accordance with subparagraph (4)(ii) of this paragraph, or (2) January 1, 1974. For purposes of this subdivision the term "subsidiary assets" includes jigs, dies, molds, returnable containers, glassware, silverware, textile mill cam assemblies, and other equipment included in Group One, Class 5, of Revenue Procedure 62-21 which is usually and properly accounted for separately from other property and under a method of depreciation not expressed in terms of years.

#### **(6) *Special rule for certain public utility property***

**(i) *Requirement of normalization in certain cases.***— Under section 167(l), in the case of public utility property (as defined in section 167(l)(3)(A)), if the taxpayer—

(a) Is entitled to use a method of depreciation other than a "subsection (1) method" of depreciation (as defined in section 167(l)(3)(F)) only if it uses the "normalization method of accounting" (as defined in section 167(l)(3)(G)) with respect to such property, or

(b) Is entitled for the taxable year to use only a "subsection (1) method" of depreciation, such property shall be eligible property (as defined in subparagraph (2) of this paragraph) only if the taxpayer normalizes the tax deferral resulting from the election to apply this section.

**(ii) *Normalization.***— The taxpayer will be considered to normalize the tax deferral resulting from the election to apply this section only if it computes its tax expense for purposes of establishing its cost of service for rate-making purposes and for reflecting operating results in its regulated books of account using a period for depreciation no less than the lesser of—

(a) 100% of the asset guideline period in effect in accordance with subparagraph (4)(ii) of this paragraph for the first taxable year to which this section applies, or

(b) The period for computing its depreciation expense for rate-making purposes and for reflecting operating results in its regulated books of account,

and makes adjustments to a reserve to reflect the deferral of taxes resulting from the use of a period for depreciation under section 167 in accordance with an election to apply this section different from the lesser of the periods described in (a) and (b) of this subdivision. In the case of public utility property described in section 167(l)(3)(A)(iii) for which no guideline life was prescribed in Revenue Procedure 62-21 (or for which reference was made in Revenue Procedure 62-21 to lives or rates established by governmental regulatory agencies), for the purpose of (a) of this subdivision, the asset guideline period shall be deemed to be the period for computing the taxpayer's depreciation expense for rate-making purposes and for reflecting operating results in its regulated books of account instead of the asset guideline period in effect in accordance with subparagraph (4)(ii) of this paragraph for the first taxable year to which this section applies. A determination whether the taxpayer is considered to normalize under this subdivision the tax deferral resulting from the election to apply this section shall be made in a manner consistent with

the principles for determining whether a taxpayer is using the "normalization" method of accounting (within the meaning of section 167(l)(3)(G)). See §1.167(l)-1(h).

**(iii) Failure to normalize.**— If a taxpayer, which has elected to apply this section to any eligible public utility property and is required under subdivision (i) of this subparagraph to normalize the tax deferral resulting from the election to apply this section to such property, fails to normalize such tax deferral, the election to apply this section to such property shall terminate as of the beginning of the taxable year for which the taxpayer fails to normalize such tax deferral. Application of this section to such property for any period prior to the termination date will not be affected by the termination. The unadjusted basis of the property shall be removed as of the termination date from the unadjusted basis of the vintage account. The depreciation reserve established for the account shall be reduced by the depreciation allowable for the property, computed in the manner prescribed in paragraph (c)(1)(v)(b) of this section for determination of the adjusted basis of the property. See paragraph (d)(3)(vii)(e) of this section for treatment of salvage value when property is removed from a vintage account.

**(iv) Examples.**— The principles of this subparagraph may be illustrated by the following examples:

*Example (1).* Corporation A is a gas pipeline company, subject to the jurisdiction of the Federal Power Commission, which is entitled under section 167(l) to use a method of depreciation other than a "subsection (l) method" of depreciation (as defined in section 167(l)(3)(F)) only if it uses the "normalization method of accounting" (as defined in section 167(l)(3)(G)). Corporation A elects to apply this section for 1972 with respect to all eligible property. In 1972, corporation A places in service eligible property with an unadjusted basis of \$2 million. One hundred percent of the asset guideline period for such property is 22 years and the asset depreciation range is from 17.5 years to 26.5 years. The taxpayer uses the double declining balance method of depreciation, selects an asset depreciation period of 17.5 years and applies the half-year convention (described in paragraph (c)(2)(iii) of this section). The depreciation allowable under this section with respect to such property in 1972 is \$114,285. The taxpayer will be considered to normalize the tax deferral resulting from the election to apply this section and to use the "normalization method of accounting" (within the meaning of section 167(l)(3)(G)) if it computes its tax expense for purposes of determining its cost of service for rate making purposes and for reflecting operating results in its regulated books of account using a "subsection (l) method" of depreciation, such as the straight line method, determined by using a depreciation period of 22 years (that is, 100 percent of the asset guideline period). A depreciation allowance computed in this manner is \$45,454. The difference in the amount determined under this section (\$114,285) and the amount used in computing its tax expense for purposes of estimating its cost of service for rate making purposes and for reflecting operating results in its regulated books of account (\$45,454) is \$68,831. Assuming a tax rate of 48 percent, the deferral of taxes resulting from an election to apply this section and using a different method of depreciation for tax purposes from that used for establishing its cost of service for rate making purposes and for reflecting operating results in its regulated books of account is 48 percent of \$68,831, or \$33,039, which amount should be added to a reserve to reflect the deferral of taxes resulting from the election to apply this section and from the use of a different method of depreciation in computing the allowance for depreciation under section 167 from that used in computing its depreciation expense for purposes of establishing its cost of service for rate making purposes and for reflecting operating results in its regulated books of account.

*Example (2).* Corporation B, a telephone company subject to the jurisdiction of the Federal Communications Commission used a "flow-through method of accounting" (as defined in section 167(l)(3)(H)) for its "July 1969 accounting period" (as defined in section 167(l)(3)(I)) with respect to all of its pre-1970 public utility property and did not make an election under section 167(l)(4)(A). Thus, corporation B is entitled under section 167(l) to use a method of depreciation other than a "subsection (l) method" with respect to certain property without using the "normalization method of accounting." In 1972, corporation B makes an election to apply this section with respect to all eligible property. Corporation B is not required to normalize the tax deferral resulting from

the election to apply this section in the case of property for which it is not required to use the "normalization method of accounting" under section 167(l).

*Example (3).* Assume the same facts as in example (2) except that corporation B made a timely election under section 167(l)(4)(A) that section 167(l)(2)(C) not apply with respect to property which increases the productive or operational capacity of the taxpayer. Corporation B must normalize the tax deferral resulting from the election to apply this section with respect to such property.

**(7) Mere change in form of conducting a trade or business.**— Property which was first placed in service by the transferor before January 1, 1971, shall not be eligible property if such property is first placed in service by the transferee after December 31, 1970, by reason of a mere change in the form of conducting a trade or business in which such property is used. A mere change in the form of conducting a trade or business in which such property is used will be considered to have occurred if—

(i) The transferor (or in a case where the transferor is a partnership, estate, trust, or corporation, the partners, beneficiaries, or shareholders) of such property retains a substantial interest in such trade or business, or

(ii) The basis of such property in the hands of the transferee is determined in whole or in part by reference to the basis of such property in the hands of the transferor.

For purposes of this subparagraph, a transferor (or in a case where the transferor is a partnership, estate, trust, or corporation, the partners, beneficiaries, or shareholders) shall be considered as having retained a substantial interest in the trade or business only if, after the change in form, his (or their) interest in such trade or business is substantial in relation to the total interest of all persons in such trade or business. This subparagraph shall apply to property first placed in service prior to January 1, 1971, held for the production of income (within the meaning of section 167(a)(2)) as well as to property used in a trade or business. The principles of this subdivision may be illustrated by the following examples:

*Example (1).* Corporation X and corporation Y are includible corporations in an affiliated group as defined in section 1504(a). In 1971 corporation X sells property to corporation Y for cash. The property would meet the requirements of subparagraph (2) of this paragraph for eligible property except that it was first placed in service by corporation X in 1970. After the transfer, the property is first placed in service by corporation Y in 1971. The property is not eligible property because of the mere change in the form of conducting a trade or business.

*Example (2).* In 1971, in a transaction to which section 351 applies, taxpayer B transfers to corporation W property which would meet the requirements of subparagraph (2) of this paragraph for eligible property except that the property was first placed in service by B in 1969. Corporation W first places the property in service in 1971. The property is not eligible property because of the mere change in the form of conducting a trade or business.

### **(c) Manner of determining allowance**

#### **(1) In general**

##### **(i) Computation of allowance**

(a) The allowance for depreciation of property in a vintage account shall be determined in the manner specified in this paragraph by using the method of depreciation adopted by the taxpayer for the account and a rate based upon the asset depreciation period for the account. (For limitations on methods of depreciation permitted with respect to property, see section 167(c) and (j) and subdivision (iv) of this subparagraph.) In applying the method of depreciation adopted by the taxpayer, the annual allowance for depreciation of a vintage account shall be determined without adjustment for the salvage value of the property in such account except that no account may be depreciated below the reasonable salvage value of the account. (For rules regarding estimation and treatment of salvage value, see paragraph (d)(1) and (3) (vii) and (viii) of this section.) Regardless of the method of depreciation adopted by the taxpayer, the depreciation allowable for a taxable year with respect to a vintage account may not exceed the

**BEFORE THE OREGON PUBLIC UTILITY COMMISSION**

**UE 177(4)**

In the Matter of )  
 )  
PACIFICORP, dba PACIFIC POWER & )  
LIGHT COMPANY )  
 )  
Filing of tariffs establishing automatic )  
adjustment clause under the terms of )  
SB 408. )

**EXHIBIT ICNU/110**

**PACIFICORP'S RESPONSE TO ICNU DATA REQUEST 3.1**

**February 25, 2011**

UE-177(4)/PacifiCorp  
February 24, 2011  
ICNU 3<sup>rd</sup> Data Request 3.1

ICNU/110  
ICNU/1 of 1

**ICNU Data Request 3.1**

Please provide complete workpapers supporting the Joint Testimony/200 and all exhibits.

**Response to ICNU Data Request 3.1**

The only workpaper for the Joint Testimony is the electronic version of Confidential Joint Testimony Exhibit/202, with formulas intact, which is provided on CD Rom as Confidential Attachment ICNU 3.1.



**BEFORE THE OREGON PUBLIC UTILITY COMMISSION**

**UE 177(4)**

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SB 408. )

**EXHIBIT ICNU/111**

**PACIFICORP'S RESPONSE TO ICNU DATA REQUEST 3.2**

**February 25, 2011**

UE-177(4)/PacifiCorp  
February 24, 2011  
ICNU 3<sup>rd</sup> Data Request 3.2

ICNU/III  
ICNU/1 of 1

**ICNU Data Request 3.2**

Please see Joint Testimony/200, page 2, line 1. Notwithstanding any proposed revisions to OAR 860-022-0041, please identify and explain whether the \$13.5 million surcharge calculation is compliant with OAR 860-22-00041.

**Response to ICNU Data Request 3.2**

The stipulated surcharge in Part 1 of the stipulation is compliant OAR 860-022-0041, as amended by the temporary rule adopted in Order No. 11-064 (Docket AR 547).