relies, including a detailed narrative explanation of each proposed adjustment to base period actual volumes and costs.

(c) Book data included in statements and schedules required to be prepared or submitted as part of the filing must be reported in a separate column or columns. All adjustments to book data must also be reported in a separate column or columns so that book amounts, adjustments thereto, and adjusted amounts will be clearly disclosed. All adjustments must be supported by a narrative explanation.

(d) Certain of the statements and schedules of § 154.313 are workpapers. Any data or summaries reflecting the books of account must be supported by accounting workpapers setting forth all necessary particulars from which an auditor may readily identify the book data included in the filing and verify that such data are in agreement with the company's books of account.

## §154.306 Tax normalization.

- (a) Applicability. (1) An interstate pipeline must compute the income tax component of its cost-of-service by using tax normalization for all transactions. This section applies, with respect to rate schedules filed under this part, to the ratemaking treatment of the tax effects of all transactions for which there are timing differences.
- (2) Except as provided in paragraph (d) of this section, application of tax normalization to compute the income tax component of the cost-of-service will not be subject to case-by-case adjudication.
  - (b) Definitions.
- (1) Tax normalization means computing the income tax component as if the amounts of timing difference transactions recognized in each period for ratemaking purposes were also recognized in the same amount in each such period for income tax purposes.
- (2) Timing differences means differences between amounts of expenses or revenues recognized for income tax purposes and amounts of expenses or revenues recognized for ratemaking purposes, which differences arise in one time period and reverse in one or more other time periods so that the total amounts of expenses or revenues recognized for income tax purposes and for ratemaking purposes are equal.
- (3) Commission-approved ratemaking method means a ratemaking method approved by the Commission in a final decision. This includes a ratemaking method that is part of an approved settlement providing that the

ratemaking method is to be effective beyond the term of the settlement.

(4) *Income tax purposes* means for the purpose of computing income tax under the provisions of the Internal Revenue Code or the income tax provisions of the laws of a State or political subdivision of a State (including franchise taxes).

(5) *Income tax component* means that part of the cost-of-service that covers income tax expenses allowable by the Commission.

(6) Ratemaking purposes means for the purpose of fixing, modifying, accepting, approving, disapproving or rejecting rates under the Federal Power Act or the Natural Gas Act.

(7) *Tax effect* means the tax reduction or addition associated with a specific expense or revenue transaction.

(8) *Transaction* means an activity or event that gives rise to an accounting entry that is used in determining revenues or expenses.

- (c) Reduction of, and Addition to, Rate Base. (1) The rate base of an interstate pipeline using tax normalization under this section must be reduced by the balances that are properly recordable in Account No. 281, 'Accumulated deferred income taxesaccelerated amortization property"; Account No. 282, "Accumulated deferred income taxes—other property": and Account No. 283, "Accumulated deferred income taxes—other." Balances that are properly recordable in Account No. 190, "Accumulated deferred income taxes," must be treated as an addition to rate base.
- (2) Such rate base reductions or additions must be limited to deferred taxes related to rate base, construction, or any revenue or expense item that affects the jurisdictional cost-of-service.
- (3) If an interstate pipeline uses an approved cost tracking mechanism, the rate base reductions or additions required under this paragraph apply only to the extent that the balances referenced in paragraph (c)(1) of this section are not used in calculations of carrying charges on amounts subject to the cost tracking mechanism.

(d) *Special rules.* (1) This paragraph applies:

(i) If the rate applicant has not provided deferred taxes in the same amount that would have accrued had tax normalization been applied for the tax effects of timing difference transactions originating at any time prior to the test period; or

(ii) If, as a result of changes in tax rates, the accumulated provision for deferred taxes becomes deficient in or in excess of amounts necessary to meet future tax liabilities as determined by application of the current tax rate to all

timing difference transactions originating in the test period and prior to the test period.

- (2) The interstate pipeline must compute the income tax component in its cost-of-service by making provision for any excess or deficiency in deferred taxes.
- (3) The interstate pipeline must apply a Commission-approved ratemaking method made specifically applicable to the interstate pipeline for determining the cost-of-service provision described in paragraph (d)(2) of this section. If no Commission-approved ratemaking method has been made specifically applicable to the interstate pipeline, then the interstate pipeline must use some ratemaking method for making such provision, and the appropriateness of such method will be subject to case-by-case determination.
- (4) An interstate pipeline must continue to include, as an addition or reduction to rate base, any deficiency or excess attributable to prior flow-through or changes in tax rates (paragraphs (d)(1)(i) and (d)(1)(ii) of this section), until such deficiency or excess is fully amortized in accordance with a Commission approved ratemaking method.

## §154.307 Cash working capital.

A natural gas company that files a tariff change under this part may not receive a cash working capital adjustment to its rate base unless the company or other participant in a rate proceeding under this part demonstrates, with a fully developed and reliable lead-lag study, a net revenue receipt lag or a net expense payment lag (revenue lead). Any demonstrated net revenue receipt lag will be credited to rate base; and, any demonstrated net expense payment lag will be deducted from rate base.

## §154.308 Joint facilities.

The Statements required by § 154.313 must show all costs (investment, operation, maintenance, depreciation, taxes) that have been allocated to the natural gas operations involved in the subject rate change and are associated with joint facilities. The methods used in making such allocations must be provided.

## §154.309 Representation of chief accounting officer.

The filing must include a statement executed by the chief accounting officer or other authorized accounting representative of the filing company representing that the cost statements, supporting data, and workpapers, that purport to reflect the books of the