

completion of the project, shall be transferred to subaccounts of the appropriate property balance sheet accounts as a cost of the related asset. When imputed interest is capitalized, a concurrent entry shall be recorded debiting profit and loss subaccount 80.2 Imputed Interest Deferred—Debit and crediting balance sheet account 2390 Other Deferred Credits which shall be cleared to profit and loss subaccount 80.3 Imputed Interest Deferred—Credit periodically as the amount of such interest in the asset accounts is written off.

(e) The capitalization of interest will be permitted only to the extent it is reflected in the accounts on a current basis. Furthermore, in the event that a construction project is not completed or a developmental project is not brought to fruition, any related capitalized interest shall be eliminated from the accounts by reversal of the capitalizing entries.

2. Delete from section 7 the present accounts 80 and 87 and their subaccounts, and insert in lieu thereof the following:

Objective classification of profit and loss elements	Functional or financial activity to which applicable (00)		
	Group I carriers	Group II carriers	Group III carriers
NONOPERATING INCOME AND EXPENSES			
80 Imputed interest capitalized.			
80.1 Imputed interest capitalized—credit	81	81	81
80.2 Imputed interest deferred—debit	81	81	81
80.3 Imputed interest deferred—credit	81	81	81
87 Interest and debt expense.			
87.1 Interest on debt principal	81	81	81
87.2 Interest capitalized—credit	81	81	81
87.3 Amortization of discount and expense on debt	81	81	81
87.4 Amortization of premium on debt	81	81	81

3. Modify section 14, accounts 80 and 87, to read as follows:

80 Imputed Interest Capitalized.

(a) Record here imputed interest capitalized pursuant to section 2-10 and charged to asset accounts.

(b) This account shall be subdivided as follows by all air carrier groups:

80.1 Imputed Interest Capitalized—Credit.

Record here credits related to imputed interest capitalized and recorded in asset accounts.

80.2 Imputed Interest Deferred—Debit.

Record here debits related to imputed interest deferred in balance sheet account 2390 Other Deferred Credits.

80.3 Imputed Interest Deferred—Credit.

Record here periodic credits for imputed interest, cleared to this account as the amount of such interest in the asset accounts is written off.

87 Interest and Debt Expense.

(a) Record here interest on all classes of debt, including interest on unpaid taxes; premium, discount, and expense on short-term obligations; and amortizations of premium, discount, and expense on short-term and long-term obligations.

This account shall also include credits for interest capitalized and recorded in asset accounts pursuant to section 2-10.

(b) This account shall be subdivided as follows by all air carrier groups:

- 87.1 Interest on Debt Principal.
- 87.2 Interest Capitalized—Credit.
- 87.3 Amortization of Discount and Expense on Debt.
- 87.4 Amortization of Premium on Debt.

4. Amend section 23 by adding a new paragraph (e) under Schedule B-2—Notes to Balance Sheet, as follows:

Schedule B-2—Notes to Balance Sheet

(e) This schedule shall reflect at the end of each calendar quarter the amount reported in balance sheet account 1550 Special Funds—Other representing funds segregated, or on deposit with manufacturers, for the purchase of equipment, including any capitalized interest thereon. (See section 2-10 Capitalization of Interest.)

5. Amend Schedule P-3 of CAB Form 41 by substituting the following for the section entitled "Nonoperating Income and Expense—Net":

NONOPERATING INCOME AND EXPENSE—NET	\$100	\$100
Imputed interest capitalized—credit	80.1	80.1
Imputed interest deferred—debit	80.2	80.2
Imputed interest deferred—credit	80.3	80.3
Capital gains and losses—operating property	81.1	81.1
Capital gains and losses—other	81.2	81.2
Unapplied cash discounts	82	82
Interest income	83	83
Dividend income	84	84
Foreign exchange adjustments	85	85
Income from nontransport ventures	86	86
Interest on debt principal	87.1	87.1
Interest capitalized—credit	87.2	87.2
Amortization of discount and expense on debt	87.3	87.3
Amortization of premium on debt	87.4	87.4
Miscellaneous nonoperating credits	88	88
Miscellaneous nonoperating debits	89	89
Nonop. inc. and exp.—net (per Sched. P-1)	8199	8199

(Secs. 204 and 407, Federal Aviation Act of 1958, as amended; 72 Stat. 743 and 766, as amended; 49 U.S.C. 1324, 1377; 80 Stat. 383, 5 U.S.C. 552)

NOTE: The reporting requirements contained herein have been approved by the Bureau of the Budget in accordance with the Federal Reports Act of 1942.

Adopted: March 21, 1967.

Effective: May 1, 1967.

By the Civil Aeronautics Board.

[SEAL] HAROLD R. SANDERSON,
Secretary.

[F.R. Doc. 67-3406; Filed, Mar. 29, 1967; 8:49 a.m.]

SUBCHAPTER F—POLICY STATEMENTS

[Docket No. 16392; Reg. PS-32; Amdt. 11]

PART 399—STATEMENTS OF GENERAL POLICY

Equipment Purchase Deposits

Adopted by the Civil Aeronautics Board at its office in Washington, D.C., on the 21st day of March 1967.

On August 9, 1965, by notice of proposed rule making EDR-87/PSDR-12 (30 F.R. 10056), the Board proposed to amend Parts 241 and 399 of the regulations to provide that the Board would not recognize equipment purchase deposits in an air carrier's investment base for ratemaking or accounting purposes and to permit all carriers to capitalize interest on such deposits and on funds used in developmental and preoperating projects.¹ Comments were filed by 10 carriers jointly² and by the Committee of the American Institute of Certified Public Accountants on Relations with the CAB.

Upon consideration of the comments received, the Board has determined to adopt the amendment to Part 399 as proposed. Amendments to Part 241 are being issued concurrently herewith (ER-484).

In establishing standards for the regulation of passenger fares in the General Passenger-Fare Investigation, 32 CAB 291 (1960), the Board decided, among other things, that the investment base recognized for this purpose should include equipment purchase deposits. The notice in the present proceeding proposed to change that policy decision by the adoption of a statement setting forth the Board's new policy of not recognizing equipment purchase deposits in an air carrier's investment base for ratemaking

¹ We note that there are pending proposals under which air carriers would make so-called risk payments to manufacturers for research and development in connection with the U.S. supersonic transport aircraft. We do not here reach the question as to the appropriate accounting and rate treatment of such risk payments.

² Alaska Airlines, Inc.; American Airlines, Inc.; Continental Air Lines, Inc.; Delta Air Lines, Inc.; National Airlines, Inc.; Northwest Airlines, Inc.; Pan American World Airways, Inc.; Trans World Airlines, Inc.; United Air Lines, Inc.; and Western Air Lines, Inc.

or accounting purposes but permitting the capitalization of interest on such deposits. Conforming amendments were proposed in the accounting regulations.

The carriers contend that the Board is without authority to change the policy with respect to equipment purchase deposits adopted in the Passenger-Fare case by rule-making proceedings and that an evidentiary hearing is required as a matter of law. The carriers' argument is without merit. Neither the Federal Aviation Act nor the Administrative Procedure Act requires an evidentiary hearing prior to the publication of statements of policy. In this proceeding, we are not prescribing lawful rates or fares pursuant to section 1002(d) of the Federal Aviation Act, which requires notice and hearing and a finding that a particular rate or fare is unlawful. We are merely establishing one of a number of ratemaking standards for future application. In this case there is involved a choice between two methods of recognizing the capital costs associated with advance payments on equipment purchases. There are no factual issues that must be resolved upon hearing in order to make this choice. Rather, the determination rests upon the weighing of policy considerations, and we have afforded interested persons the opportunity to present their views.

One of the considerations that led to the institution of this proceeding was the fact that, after the Passenger-Fare decision, a number of the carriers refused to discontinue capitalizing interest on equipment purchase deposits, while still including the deposits in their investment bases. Such a practice not only would permit a double return on investment to the detriment of the rate-paying public, but is also misleading to investors and others using the carriers' reports. Since our decision was issued in 1960, various carriers have sometimes included equipment deposits in their investment bases, sometimes capitalized interest on the deposits, and sometimes done both, apparently depending upon which treatment seemed to provide the most desirable result at a particular time; and they have supported their actions by arguing that the Passenger-Fare decision was indefinite and did not require them to employ one method or the other. In the circumstances, it was our duty to reconsider this question, to cure any alleged indefiniteness of policy, and to make our ratemaking standard entirely clear. We therefore proposed to discontinue the recognition of equipment deposits in the investment base, which was a departure from the usual ratemaking standards, and to adopt the normal procedure of permitting the carriers to capitalize interest on such deposits.

We noted that permitting capitalization of interest would, we believed, provide a basis for more rate stability than the alternative method and would be fairer to the traveling public, since expenses would be allocated to the periods in which the related revenues are earned. Including equipment purchase deposits

in the rate base affords the carriers a return on the investment before the equipment is actually acquired and put into service, whereas capitalizing interest on the deposits results in return on the investment while the equipment is in use. Thus, in the first case, shippers or passengers pay for future equipment; and, in the second case, for equipment in use. The notice pointed out that our decision in the Passenger-Fare case was based upon the theory that equipment purchase deposits were a year-in, year-out requirement for engaging in the air-transportation business. However, an analysis of the data for the years 1947 through 1963 indicated wide fluctuations in the amount of such deposits from year to year. More important, however, is the fact that inclusion of such funds in the investment base would create severe inequities between present and future users of air transportation. We stated our opinion that capitalizing interest is the more equitable method of accounting for equipment purchase deposits from the standpoint of the user of air transportation. The proposal will also make our policy uniform for accounting, subsidy determination, and commercial ratemaking purposes for both subsidized and nonsubsidized carriers, whether the carriers are engaged in interstate, overseas, or foreign air transportation.

In response to the proposal, the carriers now argue that the Passenger-Fare decision was sound, that it requires inclusion of the deposits in the investment base, and that the Board should not change that determination. In support of this position, the carriers state that no new facts have developed since 1960 that would justify the change in policy. They argue that the fact that equipment deposits fluctuate from year to year is no reason to exclude them from the rate base, that such fluctuations are not new but existed at the time of the Passenger-Fare case, and that the widest fluctuations occurred prior to the Passenger-Fare case and since then have been substantially less. Further, the carriers contend that the inclusion of the deposits in the rate base actually tends to even out investment and therefore contribute to a stable fare level rather than vice versa. They point out that new equipment is ordered when existing equipment is becoming obsolete and present data purporting to show that equipment deposits offset the reduction in the asset value of aircraft in use. They maintain that the carriers' investment base over the years has increased on the whole at a steadier and more even rate if equipment purchase deposits are included than if they are excluded from investment.

In our opinion, whether or not new facts have materialized since the Passenger-Fare decision is tangential to the question whether equity to the traveling public and the carriers requires a policy of interest capitalization. While it may be true that fluctuations in deposits have been less drastic since the Passenger-Fare decision than at that time, this simply reflects the facts that the plant then anticipated through equipment de-

posits has since come into being and the magnitude of the used and useful plant against which the materiality of subsequent deposits may be weighed has expanded. Cyclical swings in the magnitude of equipment deposits have been a characteristic of the industry and can be expected to be repeated over the next decade with the secondary jet equipment program and the preparation for supersonic operations. The data directed at showing that equipment deposits offset the reducing asset value of aircraft being used and tend to even out the industry investment and thus contribute to a stable fare level simply show that the expansion rate of investment is somewhat smoother when equipment deposits are included in the investment base, a characteristic arithmetic effect of increasing the size of the base used in computing the percentage deviations. Declining plant reflects obsolescence of equipment already paid for by users and recovered by the investors in the form of prior depreciation and is no reason for charging current users of obsolete equipment with the cost of new equipment that can benefit only future users.

In our judgment, the capitalized-interest method more fairly distributes the cost burden between present and future users of equipment. Under either the Passenger-Fare or capitalized-interest method, the air carriers recoup their capital costs. However, under the Passenger-Fare method, not only must the entire interest on the deposits be paid over a relatively short period of time, but also the cost is consequently borne by a smaller number of passengers. On the other hand, if interest on the deposits is spread over the life of the equipment after it is put into service, the cost is paid by the larger number of actual users of the equipment over a longer period.

The notice proposed that the effective interest rate for capitalization would be representative of the current rate for long-term debt of the carrier. The carriers argue that elimination of equipment deposits from investment would require modification of the debt-equity ratio used in determining the cost of capital and would require a higher overall rate of return, that it is arbitrary to say that borrowed funds are applied to equipment deposits and that equity funds are applied to other purposes, and that the same rate of return should be used when interest is capitalized as when deposits are included in the rate base. Although there may be some merit to the carriers' arguments, any determination of the presently appropriate overall rate of return on investment would involve consideration not only of debt-equity ratio, but of all the factors affecting rate of return, such as current interest rates and earnings-price ratios and the impact of the carriers' recent and prospective earnings on their ability to attract debt and equity capital. However, neither the carrier's comments nor any other information of which we are aware persuades us that the rates of return established in 1960 are inadequate today.

Moreover, capitalization at current long-term interest rates will fully compensate the carriers for costs incurred in readying assets for service.

In this connection, the carriers' further contention that capitalizing interest at a lower rate than the overall earnings rate would place them at a competitive disadvantage in the securities market falls to recognize that capitalization at cost rates is common practice in both the regulated and unregulated industries with which they must compete. Moreover, the security market must typically evaluate competitors for capital in terms of long-term earnings prospects. Consequently, competitive posture is enhanced by relieving current earnings of costs that contribute to future operations.

In sum, we do not find the arguments presented by the carriers persuasive and will adopt the policy proposed. The carriers' alternative proposal to discontinue future capitalization of interest and amortize amounts already capitalized is therefore rejected. Such a course of action would leave unresolved the basic problems the proposed rules were directed at overcoming. The carriers' request for oral argument is also denied.

For the reasons given in the preamble to the concurrent amendment of the accounting regulations (ER-484), the new ratemaking and accounting policy will be applicable to 1967 and future years.

The carriers have raised the question whether for ratemaking purposes they would be permitted to claim capitalized interest for periods prior to implementation of the new policy. In order to prevent duplicate recognition of the same cost items, it has been the Board's policy not to permit charging to later periods expense and investment items already charged to a prior period. However, in the special circumstances of this case, we will permit those carriers which have not capitalized interest and which wish to establish a retroactive record of the

amounts involved in filings with the Board to file such record without retroactive adjustment of their books of account. This filing must be made by use of the form attached hereto as Appendix A,* which will give a complete historical record of the amounts of capitalized interest that would have been permissible if the present decision were given retroactive effect and association of these amounts with the appropriate past periods, including a determination of the unamortized balance of such amounts of interest as would be applicable to future periods. The net amount of such interest as would be applicable to future periods will be permitted as a current adjustment in the books of account. These filings and current adjustments of the books will be permitted if made within 90 days from the effective date of this regulation. As prescribed by the instructions to the form, each carrier who desires to capitalize interest on equipment purchase deposits retroactively will be required to complete all three pages of the form. As noted in ER-484, however, all carriers are required to complete page 1 of this three-part form, whether they desire to capitalize interest retroactively or not.

This accounting treatment of the capitalization of interest will enable the Board to give equal treatment to all carriers in subsequent rate proceedings irrespective of whether the rate determinations involve periods prior to the date of this decision. Since the capitalization of interest is discretionary on the part of the carrier, the Board will continue its policy of not recognizing retroactive adjustments in such capitalization except as permitted herein. After the 90-day period, those carriers wishing to capitalize interest will be permitted to do so on a current basis, but requests to capitalize interest retro-

actively will be denied in accordance with established Board policy.

In consideration of the foregoing, the Civil Aeronautics Board hereby amends Part 399, Statements of General Policy (14 CFR Part 399), effective May 1, 1967, as follows:

1. By adding a section to the list of sections to read:

Sec.

399.39 Equipment purchase deposits.

2. By adding to Subpart C a new § 399.39 to read:

§ 399.39 Equipment purchase deposits.

Equipment purchase deposits are advance payments made by air carriers to manufacturers for the purchase of equipment to be delivered in the future, or funds segregated by air carriers for this purpose. It is the policy of the Board not to recognize equipment purchase deposits in an air carrier's investment base for ratemaking purposes. When equipment is acquired by an air carrier and placed in air-transport service, the Board will recognize in the air carrier's investment base interest on purchase deposits on such equipment capitalized and amortized in accordance with the Uniform System of Accounts and Reports for Certificated Air Carriers (Part 241 of this chapter).

(Secs. 204, 407, Federal Aviation Act of 1958, as amended; 72 Stat. 743 and 766, as amended; 49 U.S.C. 1324, 1377; 80 Stat. 383, 5 U.S.C. 552)

Adopted: March 21, 1967.

Effective: May 1, 1967.

NOTE: The reporting requirements contained herein have been approved by the Bureau of the Budget in accordance with the Federal Reports Act of 1942.

By the Civil Aeronautics Board.

[SEAL] HAROLD R. SANDERSON,
Secretary.

[F.R. Doc. 67-3495; Filed, Mar. 29, 1967; 8:49 a.m.]

* Appendix A filed as part of the original document.

Proposed Rule Making

DEPARTMENT OF AGRICULTURE

Consumer and Marketing Service

[7 CFR Part 52]

FROZEN ASPARAGUS

Standards for Grades¹

Notice is hereby given that the U.S. Department of Agriculture is considering an amendment to the U.S. Standards for Grades of Frozen Asparagus (7 CFR 52.381-52.393) pursuant to the authority contained in the Agricultural Marketing Act of 1946 (secs. 202-208, 60 Stat. 1087, as amended; 7 U.S.C. 1621-1627).

All persons who desire to submit written data, views, or arguments for consideration in connection with the proposed amendment should file the same in duplicate, not later than 30 days after publication hereof in the FEDERAL REGISTER, with the Hearing Clerk, U.S. Department of Agriculture, Room 112, Administration Building, Washington, D.C. 20250. All written submissions made pursuant to this notice will be available for public inspection at the office of the Hearing Clerk during regular business hours (7 CFR 1.27(b)).

Statement of consideration leading to the proposed amendment. The provisions in the current grade standards for Frozen Asparagus—in effect since 1952—are now deemed by the Department of Agriculture to be more restrictive than is necessary for good consumer acceptance or efficient manufacturing practice. The proposed amendment is in accord with the stated needs of packers of large volumes of frozen asparagus.

The proposed amendment clarifies the meaning and intent of the current standards. It would allow a slight increase in the maximum percentage of "large" units in the "medium" size and of "medium" units in the "large" size.

The proposed amendment is as follows: Section 52.385 would be deleted in its entirety and the following revised § 52.385 substituted therefor:

§ 52.385 Size of frozen asparagus.

The size of frozen asparagus spears and tips is determined by measuring the longest dimension at right angles to the longitudinal axis of the unit after it has been restored to its original contour, at a point 5 inches from the top, except that units less than 5 inches in length are measured at the base. Spears and Tips will be considered as meeting a specific single size if:

(a) Eighty (80) percent or more of the units are of the single size;

(b) All other units are one size larger and/or one size smaller;

(c) In "medium" size, not more than 10 percent of all the units are "small" and;

(d) In "large" size, not more than 10 percent of all the units are "Extra large". The word and number designations of the various sizes of frozen asparagus are shown in Table No. I.

TABLE NO. I—SIZES OF FROZEN ASPARAGUS SPEARS AND TIPS

Word designation	Number designation	Diameter in inches
Small.....	1	Less than 3/8 inch.
Medium.....	2	3/8 inch or larger but less than 5/8 inch.
Large.....	3	5/8 inch or larger but less than 3/4 inch.
Extra large.....	4	3/4 inch or larger.
Mixture or blend of sizes.		A mixture of two or more sizes or that does not meet any of the foregoing sizes.

(Secs. 202-208, 60 Stat. 1087, as amended; 7 U.S.C. 1621-1627)

Dated: March 24, 1967.

G. R. GRANGE,
Deputy Administrator,
Marketing Services.

[F.R. Doc. 67-3488; Filed, Mar. 29, 1967; 8:48 a.m.]

[7 CFR Part 1128]

[Docket No. AO 238-A20]

MILK IN CENTRAL WEST TEXAS MARKETING AREA

Notice of Recommended Decision and Opportunity To File Written Exceptions on Proposed Amendments to Tentative Marketing Agreement and to Order

Pursuant to the provisions of the Agricultural Marketing Agreement Act of 1937, as amended (7 U.S.C. 601 et seq.), and the applicable rules of practice and procedure governing the formulation of marketing agreements and marketing orders (7 CFR Part 900), notice is hereby given of the filing with the Hearing Clerk of this recommended decision with respect to proposed amendments to the tentative marketing agreement and order regulating the handling of milk in the Central West Texas marketing area. Interested parties may file written exceptions to this decision with the Hearing Clerk, U.S. Department of Agriculture, Washington, D.C. 20250, by the fifth day after publication of the decision in the FEDERAL REGISTER. The exceptions should be filed in quadruplicate. All written submissions made pursuant to this notice will be made available for

public inspection at the office of the Hearing Clerk during regular business hours (7 CFR 1.27(b)).

Preliminary statement. The hearing on the record of which the proposed amendments, as hereinafter set forth, to the tentative marketing agreement and to the order as amended, were formulated, was conducted at Abilene, Tex., on February 9, 1967, pursuant to notice thereof which was issued January 31, 1967 (32 F.R. 2382).

The material issues on the record of the hearing relate to:

1. Revision of Class I price and location adjustments.

2. Emergency action on Issue 1.

Findings and conclusions. The following findings and conclusions on the material issues are based on evidence presented at the hearing and the record thereof:

1. **Revision of Class I price and location adjustments.** The Class I and uniform prices for milk received at plants within 70 miles of Midland, Tex., should be reduced by 15 cents, by 10 cents at plants located in the Abilene area and by 5 cents in the San Angelo area.

The Central West Texas Class I price is presently 25 cents over the North Texas Class I price at Abilene and San Angelo plants and 40 cents over North Texas at a Midland plant. The announced Class I price is subject to minus location adjustments so that the price for milk delivered to a plant in the eastern portion of the marketing area that is nearer to the North Texas marketing area is reduced by 20 cents to a level 5 cents more than the North Texas Class I price. The same adjustments apply to the producer uniform prices. While the Central West Texas marketing area includes 32 cities and towns located in 22 counties in Texas, processing plants regulated under the order are operated only at the cities of Abilene, San Angelo, and Midland. A supply plant operated by the cooperative association is located at Dublin.

The cooperative association representing all but one of the Central West Texas producers and a handler operating pool distributing plants at Midland and Abilene proposed elimination of the 15-cent increase in the Class I price at Midland over the price effective at Abilene. A handler operating a pool distributing plant at Abilene proposed a general reduction of 15 cents per hundredweight in the Class I price at all plant locations.

The handler who operates two pool plants, one at Midland and the other at Abilene, also operates a plant at Lubbock that is a pool plant under the Lubbock-Plainview order. This handler contended that the Midland area Class I price is excessive in relation to prices to competing distributors regulated by this order at certain locations and in relation to prices under nearby Federal orders.

¹ Compliance with the provisions of these standards shall not excuse failure to comply with the provisions of the Federal Food, Drug, and Cosmetic Act or with applicable state laws and regulations.