



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

OFFICE OF  
CHIEF COUNSEL

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CAM-101339-98

MEMORANDUM FOR: INDUSTRY DIRECTOR, NATURAL RESOURCES AND  
CONSTRUCTION (LM:NRC)

FROM: SENIOR TECHNICIAN REVIEWER, BRANCH 6 (CC:PSI:6)  
PASSTHROUGHS AND SPECIAL INDUSTRIES

SUBJECT: DENIAL OF CONSENT FOR CHANGE IN  
ACCOUNTING METHOD

In accordance with § 8.07(2)(a) of Rev. Proc. 2001-1, 2001-1 I.R.B. 1, 43, this Chief Counsel Advice advises you that consent for a change in accounting method has been denied to a taxpayer within your jurisdiction. Pursuant to § 6110 (k)(3), this Chief Counsel Advice is not to be cited as precedent.

LEGEND:

Taxpayer =

Date =

Amount =

Taxpayer filed the Form 3115, Application for Change in Accounting Method, to request permission to change its method of computing depreciation for certain assets relating to its hydroelectric and nuclear power plants under Rev. Proc. 97-27, 1997-1 C. B. 680. Because this change was under a revenue procedure, Taxpayer may have already made this change.

Taxpayer is an electric utility that engages in the production and sale of electricity to the general public. Taxpayer previously treated this property as included in asset classes 49.11, Electric Utility Hydraulic Production Plant, 49.12, Electric Utility Nuclear Production Plant, and 49.14, Electric Utility Transmission and Distribution Plant, under Rev. Proc. 87-56, 1987-2 C. B. 674 (and Rev. Proc. 83-35, 1983-1 C. B. 745). Taxpayer believes these classifications were improper. Specifically, Taxpayer believes that this property belongs in asset class 00.11, Office Furniture, Fixtures, and Equipment, or asset class 00.12, Information Systems, or as qualified technological equipment under § 168(i)(2).

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The class lives of property subject to depreciation under § 168 are set forth in Rev. Proc. 87-56. This revenue procedure divides assets into two broad categories: (1) asset classes 00.11 through 00.4 that consist of specific depreciable assets used in all business activities; and (2) asset classes 01.1 through 80.0 that consist of depreciable assets used in specific business activities. An asset that falls within both an asset group (that is, asset classes 00.11 through 00.4) and an activity group (that is, asset classes 01.1 through 80.0) is classified in the asset group. See *Norwest Corp. & Subs. v. Commissioner*, 111 T.C. 105, 156-64 (1998).

Specifically, asset class 00.11, Office Furniture, Fixtures, and Equipment, includes furniture and fixtures that are not a structural component of a building. It includes such assets as desks, files, safes, and communications equipment. Asset class 00.12, Information Systems, includes computers and their peripheral equipment used in administering normal business transactions and the maintenance of business records, their retrieval and analysis.

Section 168(i)(2) defines the term “qualified technological equipment” as including any computer or related peripheral equipment. The term “computer” is defined as a programmable electronically activated device which is capable of accepting information, applying prescribed processes to the information, and supplying the results of these processes with or without human intervention, and consists of a central processing unit containing extensive storage, logic, arithmetic, and control capabilities. The term “related peripheral equipment” means any auxiliary machine (whether on-line or off-line) which is designed to be placed under the control of the central processing unit of a computer. However, it does not include any equipment which is an integral part of other property which is not a computer, typewriters, calculators, adding and accounting machines, copiers, duplicating equipment, and equipment of a kind used primarily for amusement or entertainment of the user.

Taxpayer’s business activity is described in electric utility asset classes 49.11, 49.12 and 49.14 of Rev. Proc. 87-56 (and Rev. Proc. 83-35). Taxpayer’s assets relating to its nuclear power plants such as a remote viewing system, annunciation system, and plant security system that Taxpayer wishes to include in asset class 00.11, Office Furniture, Fixtures, and Equipment, are not the type of specific depreciable assets used in all business activities, rather they are included in Taxpayer’s business activity asset classes.

Further, Taxpayer wishes to include assets relating to its hydroelectric and nuclear power plants such as control and/or monitoring systems, nuclear simulator computer complex, radiation measurement and detection equipment, dispatch boards, supervisory control units, relays and meters, training simulator, and pilot wire protection either in asset class 00.12, Information Systems or as qualified technological equipment under § 168(i)(2). These assets cannot be included in asset class 00.12 because they are not used in administering normal business transactions and the maintenance of business records, their retrieval and analysis. Additionally, these assets do not

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constitute qualified technological equipment because they characterize equipment which is an integral part of other property which is not a computer.

The method changes would have been effective with the taxable year beginning Date and would have resulted in a negative § 481(a) adjustment/decrease in taxable income of Amount.

If you have any questions on this matter, do not hesitate to call me at (202) 622-3110.

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PETER C. FRIEDMAN  
Senior Technician Reviewer, Branch 6  
Office of Associate Chief Counsel  
(Passthroughs & Special Industries)

cc: