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FERC Accounting and Reporting Matters

March 11, 2015



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Speakers

- Gerald Williams - Manager, Regulatory Accounting Branch, FERC
- Dave Dougher – Manager, Accounting, EEI
- Bill Graf – Partner, Deloitte & Touche LLP
- Tom Kilkenny – Partner, Deloitte & Touche LLP
- Jason Gambone – Director, Deloitte & Touche LLP
- Matt Alter – Senior, Deloitte & Touche LLP

Agenda

- Introduction
- Background on FERC
- FERC Reporting Requirements
- Uniform System of Accounts
- FERC Reporting Software (EEI/AGA portion)
- FERC to US GAAP Accounting Differences
- FERC Audits – Deep Dives on Formula Rates and AFUDC
- Closing/Questions

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Introduction

Deloitte – EEI – AGA FERC Accounting and Reporting Webcast

Federal Energy Regulatory Commission

Washington D.C.



FEDERAL ENERGY
REGULATORY COMMISSION

FERC Accounting Update

Gerald Williams, CPA, CGMA

Manager, Regulatory Accounting
Branch

Division of Audits and Accounting
Office of Enforcement

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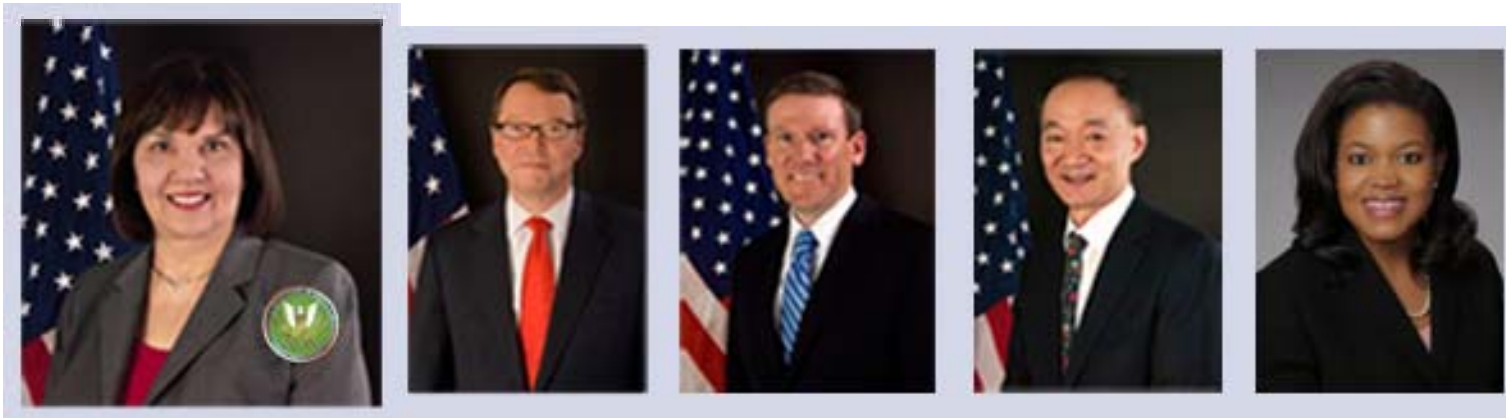
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The views expressed in this presentation are those of the presenter and do not necessarily reflect the views of the Federal Energy Regulatory Commission (FERC), its Chairman, or any individual Commissioner.



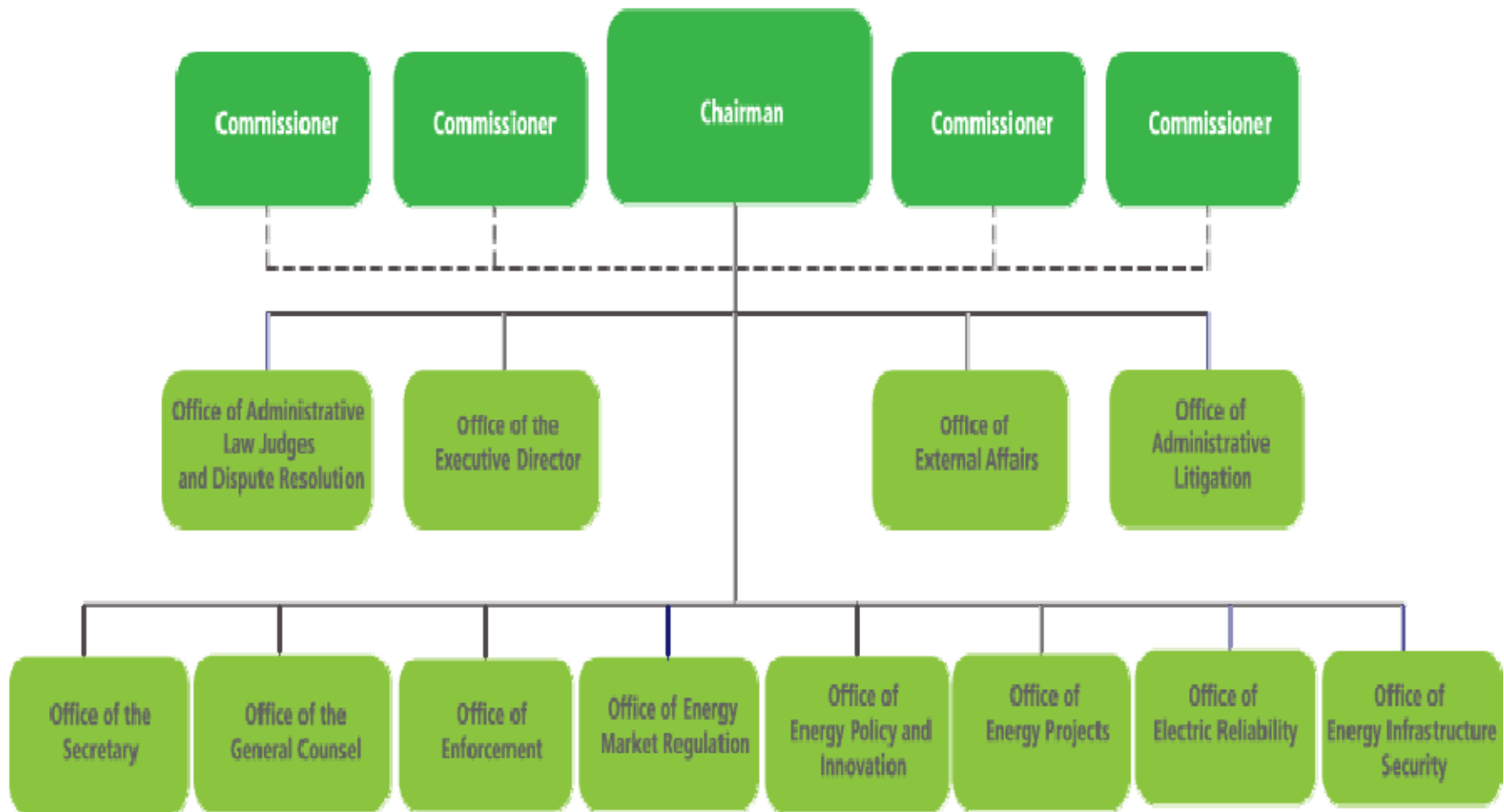
FERC Commissioners

- Chairman Cheryl A. LaFleur
- Philip D. Moeller
- Tony Clark
- Norman C. Bay
- Colette D. Honorable



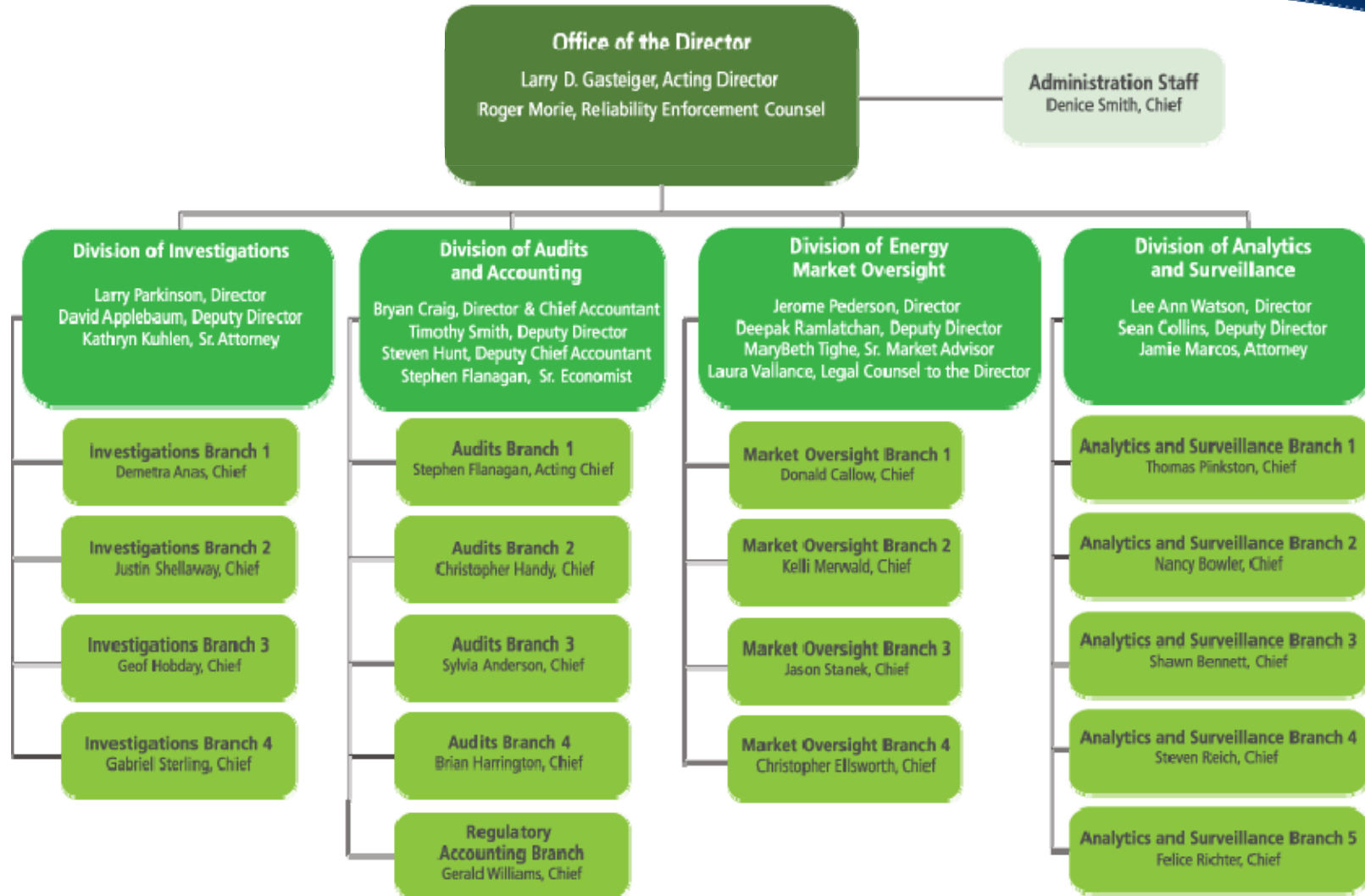


Federal Energy Regulatory Commission





Office of Enforcement (OE)





Division of Audits and Accounting

- Conducts compliance, performance, and other types of audits and related activities to ensure that jurisdictional companies comply with Commission statutes, orders, rules, tariffs, and regulations
 - Risk-based approach
 - Transparency through audit reports
- FY2014 Audit Statistics
 - Completed 19 audits
 - 162 audit recommendations and \$11.7 million in refunds



Division of Audits and Accounting

- Develops and maintains uniform regulations and requirements for accounting, financial reporting, and preservation of records
- Advises the Commission on all accounting issues affecting jurisdictional industries
 - Leads the analysis of all accounting filings
 - Participates in rate, merger and acquisition, and audit proceedings
- FY2014 Accounting Statistics
 - Reviewed approximately 345 filings to ensure accounting is consistent with the applicable USofA



FERC Accounting Requirements

- A body of accounting rules and regulations developed and maintained by FERC, informed by U.S. generally accepted accounting principles, for the purpose of rate design
 - Uniform Systems of Accounts (18 C.F.R. Part 101)
 - Commission orders
 - Chief Accountant Guidance Letters
 - Chief Accountant Accounting Releases
 - Chief Accountant Delegated Letter Orders

FERC Reporting

FERC Forms – Major Utilities

- **FERC Form 1 – Annual Report for Major Electric Utility**
 - One million megawatt hours OR
 - 100 megawatt hours of annual sales for resale
 - 500 megawatt hours of annual power exchange delivered
 - 500 megawatt hours of annual wheeling for others

- **FERC Form 2 – Major Natural Gas Pipeline Annual Report**
 - Combined gas transported or stored for a fee that exceeds 50 million dekatherms
 - Most single-state distribution companies are exempt

- **FERC Form 3Q – Quarterly Financial Report for Electric Utilities, Licenses, and Natural Gas Companies**
 - Quarterly financial information required for all major and non-major utilities

FERC Forms – Non-Major Utilities

- **FERC Form 1-F – Annual Report for Non-major Electric Utility**
 - Annual sales of 10,000 megawatt-hours or more in the previous calendar year and not classified as major
- **FERC Form 2A – Major Natural Gas Pipeline Annual Report**
 - Total gas sales or volume transactions of 200,000 dekatherms
- **FERC Form 60 – Annual Report of Centralized Service Companies**
 - Annual regulatory support requirement for centralized service companies – no auditor involvement



FERC Forms – Audit Requirements

➤ CPA Certification Required

- Attest to the conformity, in all material aspects, of the below listed (schedules and pages) with the Commission's applicable Uniform System of Accounts (including applicable notes related thereto and the Chief Accountant's published accounting releases)
- Signed by independent certified public accountants or an independent licensed public accountant certified or licensed by a regulatory authority of a State or political subdivision of the U.S.

Schedules & Pages

1. Comparative Balance Sheets (110-113)
2. Statement of Income (114-117)
3. Statement of Retained Earnings (118-119)
4. Statement of Cash Flows (120-121)
5. Notes to Financial Statements (122-123)

FERC Forms – Filing Deadlines

- **FERC Form 1:** April 20th, 2015 , typically April 18th
- **FERC Form 2:** April 20th, 2015, typically April 18th
- **FERC Form 3-Q:** within 60 days after the reporting quarter
 - No auditor involvement

Uniform System of Accounts

Uniform System of Accounts - Requirement

- The Federal Energy Regulatory Commission is responsible for the accounting and financial reporting of its jurisdictional companies. This is accomplished through the development and maintenance of the Commission's Uniform System of Accounts (USofA) and the issuances of various accounting rulemakings, guidances, and releases.
- Electric Public Utilities & Licensees, Natural Gas, and Oil Pipeline companies within FERC jurisdiction are required to maintain their books and records in accordance with the Commission's Uniform System of Accounts (USoA).

USoA Numbering system

- The account numbering plan used herein consists of a system of three-digit whole numbers as follows:
 - 100-199 Assets and other debits
 - 200-299 Liabilities and other credits
 - 300-399 Plant accounts
 - 400-432, 434-435 Income accounts
 - 433, 436-439 Retained earnings accounts
 - 440-459 Revenue accounts
 - 500-599 Production, transmission and distribution expenses
 - 900-949 Customer accounts, customer service and informational, sales, and general and administrative expenses

Uniform System of Accounts – Example 1

Name of Respondent		This Report Is: (1) <input type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Date of Report (Mo, Da, Yr)	Year/Period of Report End of _____
COMPARATIVE BALANCE SHEET (ASSETS AND OTHER DEBITS)				
Line No.	Title of Account (a)	Ref. Page No. (b)	Current Year End of Quarter/Year Balance (c)	Prior Year End Balance 12/31 (d)
1	UTILITY PLANT			
2	Utility Plant (101-106, 114)	200-201		
3	Construction Work in Progress (107)	200-201		
4	TOTAL Utility Plant (Enter Total of lines 2 and 3)			
5	(Less) Accum. Prov. for Depr. Amort. Depl. (108, 110, 111, 115)	200-201		
6	Net Utility Plant (Enter Total of line 4 less 5)			
7	Nuclear Fuel in Process of Ref., Conv., Enrich., and Fab. (120.1)	202-203		
8	Nuclear Fuel Materials and Assemblies-Stock Account (120.2)			
9	Nuclear Fuel Assemblies in Reactor (120.3)			
10	Spent Nuclear Fuel (120.4)			
11	Nuclear Fuel Under Capital Leases (120.6)			
12	(Less) Accum. Prov. for Amort. of Nucl. Fuel Assemblies (120.5)	202-203		
13	Net Nuclear Fuel (Enter Total of lines 7-11 less 12)			

Uniform System of Accounts – Example 2

Line No.	Title of Account (a)	(Ref.) Page No. (b)	Current Year (c)	Previous Year (d)
42	Other Income Deductions			
43	Loss on Disposition of Property (421.2)			
44	Miscellaneous Amortization (425)			
45	Donations (426.1)			
46	Life Insurance (426.2)			
47	Penalties (426.3)			
48	Exp. for Certain Civic, Political & Related Activities (426.4)			
49	Other Deductions (426.5)			
50	TOTAL Other Income Deductions (Total of lines 43 thru 49)			
51	Taxes Applic. to Other Income and Deductions			
52	Taxes Other Than Income Taxes (408.2)			
53	Income Taxes-Federal (409.2)			
54	Income Taxes-Other (409.2)			
55	Provision for Deferred Inc. Taxes (410.2)			
56	(Less) Provision for Deferred Income Taxes-Cr. (411.2)			
57	Investment Tax Credit Adj.-Net (411.5)			
58	(Less) Investment Tax Credits (420)			
59	TOTAL Taxes on Other Income and Deductions (Total of lines 52-58)			

102 Gas/Electric Plant Purchased or Sold

- A. This account shall be charged with the cost of gas plant acquired as an operating unit or system by purchase, merger, consolidation, liquidation, or otherwise, and shall be credited with the selling price of like property transferred to others pending the distribution to appropriate accounts in accordance with gas plant instruction 5.
- B. Within six months from the date of acquisition or sale of property recorded herein, the utility shall file with the Commission the proposed journal entries to clear from this account the amounts recorded herein.

114 Gas/Electric Plant Purchased or Sold

- A. This account shall include the difference between (a) the cost to the accounting utility of gas plant acquired as an operating unit or system by purchase, merger, consolidation, liquidation, or otherwise, and (b) the original cost, estimated, if not known, of such property, less the amount or amounts credited by the accounting utility at the time of acquisition to accumulated provisions for depreciation, depletion, and amortization and contributions in aid of construction with respect to such property.

114 Gas/Electric Plant Purchased or Sold

- C. Debit amounts recorded in this account related to plant and land acquisition may be amortized to account 425, Miscellaneous Amortization, over a period not longer than the estimated remaining life of the properties to which such amounts relate. Amounts related to the acquisition of land only may be amortized to account 425 over a period of not more than 15 years. Should a utility wish to account for debit amounts in this account in any other manner, it shall petition the Commission for authority to do so. Credit amounts recorded in this account shall be accounted for as directed by the Commission.

116 Gas/Electric Plant Adjustments

- A. This account shall include the difference between the original cost, estimated if not known, and the book cost of gas plant to the extent that such difference is not properly includible in account 114 Gas Plant Acquisition Adjustments. (See gas plant instruction 1C.)

Note: The provisions of this account shall not be construed as approving or authorizing the recording of appreciation of gas plant.

123.1 Investments in Subsidiary Companies

This account shall include the cost of investments in securities issued or assumed by subsidiary companies and investment advances to such companies, including interest accrued thereon when such interest is not subject to current settlement plus the equity in undistributed earnings or losses of such subsidiary companies since acquisition. This account shall be credited with any dividends declared by such subsidiaries.

Subsidiary Company in the case of Major utilities means a company which is controlled by the utility through ownership of voting stock. (See *Definitions* item 5B, *Control*). A corporate joint venture in which a corporation is owned by a small group of businesses as a separate and specific business or project for the mutual benefit of the members of the group is a subsidiary company for the purposes of this system of accounts.

123.1 Investments in Subsidiary Companies (cont.)

B. *Control* (including the terms *controlling*, *controlled by*, and *under common control with*) means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a company, whether such power is exercised through one or more intermediary companies, or alone, or in conjunction with, or pursuant to an agreement, and whether such power is established through a majority or minority ownership or voting of securities, common directors, officers, or stockholders, voting trusts, holding trusts, associated companies, contract or any other direct or indirect means.

216.1 Unappropriated undistributed subsidiary earnings

- This account shall include the balances, either debit or credit, of undistributed retained earnings of subsidiary companies since their acquisition. When dividends are received from subsidiary companies and the balances have been included in this account, this account shall be debited and account 216, Unappropriated Retained Earnings, credited.

165 Prepayments

- This account shall include payments for undelivered gas and other prepayments of rents, taxes, insurance, interest, and like disbursements made prior to the period to which they apply.

“Below the Line Accounts”

- Special Instructions
- *Accounts 426.1, 426.2, 426.3, 426.4 and 426.5*
- These accounts shall include miscellaneous expense items which are nonoperating in nature but which are properly deductible before determining total income before interest charges.
- Note: The classification of expenses as nonoperating and their inclusion in these accounts is for accounting purposes. It does not preclude Commission consideration of proof to the contrary for ratemaking or other purposes.

“Below the Line Accounts”

- 426.1 Donations - This account shall include all payments or donations for charitable, social or community welfare purposes.
- 426.2 Life insurance - This account shall include all payments for life insurance of officers and employees where company is beneficiary (net premiums less increase in cash surrender value of policies).
- 426.3 Penalties - This account shall include payments by the company for penalties or fines for violation of any regulatory statutes by the company or its officials. or proposed operations.

“Below the Line Accounts”

- 426.4 Expenditures for certain civic, political and related activities - This account shall include expenditures for the purpose of influencing public opinion with respect to the election or appointment of public officials, referenda, legislation, or ordinances (either with respect to the possible adoption of new referenda, legislation or ordinances or repeal or modification of existing referenda, legislation or ordinances) or approval, modification, or revocation of franchises; or for the purpose of influencing the decisions of public officials, but shall not include such expenditures which are directly related to appearances before regulatory or other governmental bodies in connection with the reporting utility's existing or proposed operations.

Asset Retirement Obligations

- Accounting, Financial Reporting, and Rate Filing Requirements for Asset Retirement Obligations (Issued April 9, 2003)

“all cost components related to asset retirement obligations that would impact the calculation of rate base, such as gas plant and related accumulated depreciation and accumulated deferred income taxes, may not be reflected in rates and must be removed from the rate base calculation through a single adjustment”

Technical Resources

- [System of Accounts \(Electric\)](#)
- [System of Accounts \(Gas\)](#)
- [Report on Enforcement](#)
- FERC Accounting Orders
- FERC Accounting Rulemakings
- FERC Accounting Guidance
- Staff's Guidance on Formula Rates
- Orders on Formula Rate Protocols
- FERC Audit Reports

Accounting Policies Requiring FERC Approval

- Common Examples:
 - Goodwill and Purchase Acquisition Adjustments in rate base or formula rate
 - AFUDC formula divergent from system of accounts formula
 - Merging of plant accounts in an acquisition (proper use of a/c 102 under Plant Instruction 5)

FERC Reporting Software

FERC Reporting Software

- EEI's FERC Accounting Liaison Group has discussed with FERC staff industry concerns with the FERC reporting software and potential enhancements to reduce preparation time and improve consistency by filers across the utility industry.
- FERC has acknowledged that its software needs to be upgraded as Microsoft is ceasing its support of Visual FoxPro and FERC staff is looking to migrate to a new platform for its reporting software.

FERC Reporting Software

- At this time, the future platform has not been determined and the schedule for implementation has not been set. The new platform is likely to be Extensible Markup Language (XML), which is the platform used by e-tariff and Electric Quarterly Reports (EQR).
- FERC is applying its resources toward the migration of its reporting software to the new platform. So, updates are not expected for the existing reporting software.
- In the interim, FERC staff encourages utilities to report software issues using FERC Online Support (ferconlinesupport@ferc.gov).

FERC Reporting Software

- Also, companies should be aware of a Guidance Letter (AL14-1-000) issued by FERC in February 2014 directing filers to use the footnotes to report the activity and balances for the Energy Storage Accounts established in July 2013 by Order No. 784.

FERC to US GAAP Accounting Differences

FERC to US GAAP Accounting Differences

Examples of common differences

- All Subsidiaries, regardless of ownership percentage or control, are accounted for using the equity method
- No distinction in FERC reporting between current and long term classification for certain accounts such as debt, deferred income taxes, regulatory assets and regulatory liabilities
- For FERC reporting, power purchase and sale transactions with an RTO are netted based on hourly volumes; separate netting for real time and day ahead markets (under GAAP, different units of account for netting are acceptable)

FERC to US GAAP Accounting Differences

Common differences (*cont.*)

- Accumulated cost of removal is included in accumulated depreciation for FERC reporting (classified as a regulatory liability in SEC reporting)
- Revenues and expenses from nonutility activities are classified in the “below the line” accounts under FERC reporting (typically classified within operations under GAAP)

FERC to US GAAP Accounting Differences

Common differences (*cont.*)

- Income tax differences – Balance Sheet
 - FERC reporting
 - Deferred income tax assets (account 190) and deferred income tax liabilities (accounts 281, 282 and 283) are presented gross
 - US GAAP reporting
 - Current deferred tax assets and liabilities are netted to a single current asset or liability
 - Long term deferred tax assets and liabilities are netted to a single long term asset or liability

FERC to US GAAP Accounting Differences

Common differences (*cont.*)

- Income tax differences – Income statement
 - For FERC reporting, income tax expense amounts are classified in a variety of above the line and below the line accounts
 - Below the line income tax expense or benefit applies to the various pre tax revenue and expense amounts that are classified below the line
 - Best practice-prepare a separate effective tax rate analysis for the above the line and below the line accounts

FERC to US GAAP Accounting Differences

Common differences (*cont.*)

- Uncertain tax positions
 - FERC Docket A107-2-000 (May 25, 2007) sets forth guidance
 - Certain classifications that are required or permitted under GAAP for uncertain tax positions (ASC 740-45) are not permitted under FERC reporting

FERC to US GAAP Accounting Differences

Common differences (*cont.*)

- Uncertain tax positions
 - Uncertain tax positions related to temporary differences must continue to be classified within the deferred tax accounts under FERC reporting (the liability for uncertain tax benefits under GAAP may not be combined with the deferred tax accounts)
 - Interest must be charged to account 431 and penalties must be charged to account 426.3 (under GAAP, an acceptable policy is to include interest and penalties in income tax expense)

FERC and GAAP differences

GAAP Accounting Guidance ASC 740 Separate subsidiary financial statements

ASC 740 does not require one particular method to allocate the consolidated income tax liability between members of a group. Instead, ASC 740 permits a number of methods, including methods in which the sum of the amounts allocated to individual members of the group may not equal the consolidated amount. ASC 740 specifically states that a method that allocates current and deferred taxes to members of the group as if each member were a separate taxpayer (separate return method) is consistent with the statement's criteria.

FERC and GAAP differences

FERC Accounting Guidance AI93-5-000 – Standalone Method

Will the FERC permit an entity to use a separate return method for FERC financial accounting and reporting?

Response: No. The FERC has issued several decisions rejecting the use of the separate return method for determining income tax expense when an entity files as part of a consolidated group. Instead, the FERC relies on the standalone method of allocating income taxes between members of a consolidated group.

Under the standalone method the consolidated tax expense is allocated to individual members through recognition of the benefits/burdens contributed by each member of the consolidated group to the consolidated return. Under the standalone method, the sum of amounts allocated to individual members equal the consolidated amount.

FERC to US GAAP Accounting Differences – Standalone Method

Areas to consider

- Income tax credits earned by the actions of subsidiaries – regulated and non-regulated
- Net operating losses generated by the results of subsidiaries
- State income tax apportionment

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Federal Energy Regulatory Commission

Washington D.C.



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FERC Accounting Update – FERC Accounting and Reporting

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FERC Accounting & Reporting Requirements

- Necessary tool to set and monitor cost-of-service rates
 - Identifies what costs are generally recoverable
 - Operating (above-the-line) costs vs. Nonoperating (below-the-line) costs
 - Identifies who costs should be recovered from
 - Costs are classified by operating function (production, transmission, and distribution)
 - Identifies when costs should be recovered



Increased Relevance of FERC Form No. 1

- More costs than ever are automatically flowed through rates using FERC Form No. 1 data
 - Formula rates
 - Electric fuel adjustment clauses
- Avoid making accounting changes that have the effect of a rate change without making the appropriate rate filing with the Commission
 - Circumvents rights to due process
 - Accounting cannot control rates



FERC Accounting & Reporting Compliance Issues

- Goodwill
- Asset Retirement Obligations
- Below-the-Line Costs
 - Penalties, donations, etc.
- Tax Prepayments/Overpayments
- Merger Costs



FERC Accounting & Reporting Compliance Issues

- Depreciation Rates
- Improper Capitalization
- Transmission Incentives
- Form No. 1 supporting schedule accuracy
- Form No. 1 changes to beginning balances
- Form No. 1 data analysis projects



Compliance Guidance Toolkit

- Commission Declaratory Order
- General Counsel Opinion Letter
- **Accounting Interpretations**
- **Compliance Help Desk**
- Enforcement Hotline
- **Accounting Inquiries: (202) 502-8877;
Accountinginquiries@ferc.gov**
- **Informal meetings and discussions with staff**



Compliance Guidance

- *FERC Policy Statement on Enforcement*, 113 FERC ¶ 61,068 (2005)
- *Informal Staff Advice on Regulatory Requirements*, 113 FERC ¶ 61,174 (2005), *modified* 117 FERC ¶ 61,069 (2006), No-Action Letter Process
- *Revised Policy Statement on Enforcement*, 123 FERC ¶ 61,156 (2008)
- *Obtain Guidance on Regulatory Compliance*, 123 FERC ¶ 61,157 (2008) (Interpretative Order Modifying No-Action Letter Process and Reviewing Other Mechanisms for Obtaining Guidance)
- *Policy Statement on Compliance*, 125 FERC ¶ 61,058 (2008)
- *Policy Statement on Penalty Guidelines*, 130 FERC ¶ 61,220 (2010), *Revised Policy Statement on Penalty Guidelines*, 132 FERC ¶ 61,216 (2010).



Other Relevant Information

- Accounting matters
 - <http://www.ferc.gov/enforcement/acct-matts.asp>
- Audit reports and related letter and Commission orders
 - Audits docketed with the FA and PA designations
- Audit process
 - www.ferc.gov/enforcement/audits.asp
- Reports on Enforcement (2009-2014)
 - Docket No. AD07-13



Questions?

- **Gerald Williams, CPA**
- (202) 502-8277
- Gerald.Williams@ferc.gov

FERC Audits – Deep Dive on Formula Rates and AFUDC

Formula Rates

Transmission O&M Expense (above the line)	\$
Transmission Depreciation	\$
Taxes (Income and Other)	\$
<u>Return (Rate Base x Rate of Return)</u>	<u>\$</u>
Annual Revenue Requirement	

Formula Rates

- Rates represent the fair return to investors as determined by the regulators
- Intent of the formula is to establish rates that are reasonable, and not unduly discriminatory or preferential
- Rates are usually a composite rate that reflect the following:
 - Carrying costs of debt
 - Dividends on preferred stock
 - Cost of equity
 - Other

Formula Rates

- How is rate of return calculated?
 - Identify sources of capital used to finance utility assets
 - Identify “cost” of each source of capital
 - Calculation of debt and preferred stock cost not controversial

- Commercial paper/short-term debt
 - Typically finances CWIP
 - CWIP excluded from rate base, source of financing excluded from capital structure

Formula Rates

➤ Cost of Equity Adjustments

- Remove AOCI (Account 219)
- Remove Unappropriated Undistributed Subsidiary Earnings (Account 216.1)
- Remove any effect of Goodwill or Purchase Acquisition Adjustments from equity

➤ Cost of Debt Adjustments

- Adjust for gain/loss on reacquired debt
- Adjust for ADIT associated with gain/loss

Formula Rates

- Formula Rate Inputs Not Taken Directly From FERC Form No. 1
 - Costs excluded in rate determinations absent express authorization
 - Transmission incentive projects
 - Inputs requiring adjustments from FERC Form No. 1 balances

Formula Rates

- Costs excluded in rate determinations absent express authorization
 - Transaction-Related Costs (Various Accounts)
 - Asset Retirement Obligations (Accounts 101, 230)
 - Acquisition Premiums (Account 211)
 - Unfunded Accumulated Deferred Income Taxes (Accounts 190, 283, 282)
 - Others

Formula Rates

➤ Transmission Incentive Projects

- For each transmission incentive project included in the annual update, the following must be indicated in the filing:
 - Portion of such formula rate attributable to each project (CWIP in rate base, Abandoned Costs, Deferred Costs)
 - Proceeding in which Company was granted the incentive
 - Sufficient support for the derivation of the input

Formula Rates

- Inputs requiring adjustments from FERC Form No. 1 balances
 - Taxes Other Than Income Taxes (Account 408.1)
 - A&G Expenses (Accounts 920 – 931)
 - Accumulated Deferred Income Taxes and Prepayments (Accounts 190, 282, 283, 165)
 - Revenue (Accounts 450, 451, 454, 456)
 - Plant Inputs – Remove AFUDC (Account 107)

Formula Rates

- Formula process improvement areas
 - Reconcile calculation with applicable order and support each input not taken directly from the FERC Form 1 with sufficient narrative description
 - Determine the composition of O&M expense, rate base, and equity is consistent with applicable orders
 - Strengthen policies and procedures related to the allocation of expenditures that impact the formula rate filing
 - Transmission vs. Distribution
 - Transmission Incentive Project vs. Non Incentive Project
 - Service Company vs. Regulated Utility
 - Capital vs. Expense

Recent FERC audit findings on AFUDC

- Including contract retentions in the AFUDC base
- Including construction accruals in the AFUDC base
- Compounding AFUDC monthly instead of semi-annually
- Including other equity accounts in the common equity balance used to calculate AFUDC

Plant Instruction 3 (17)

$$A_i = s \left(\frac{S}{W} \right) + d \left(\frac{D}{D+P+C} \right) \left(1 - \frac{S}{W} \right)$$

$$A_e = \left[1 - \frac{S}{W} \right] \left[p \left(\frac{P}{D+P+C} \right) + c \left(\frac{C}{D+P+C} \right) \right]$$

A_i – Interest Rate

S = Average short-term debt

W = Average balance in construction work in progress less asset retirement costs (See General Instruction 24) related to plant under construction

D = Long-term debt

d = Long-term debt interest rate

P = Preferred stock

C = Common equity

S = Short term interest rate

$$A_i = s \left(\frac{S}{W} \right) + d \left(\frac{D}{D+P+C} \right) \left(1 - \frac{S}{W} \right)$$

A_e – Equity Rate

S = Average short-term debt

W = Average balance in construction work in progress less asset retirement costs (See General Instruction 24) related to plant under construction

D = Long-term debt

c = Common equity cost rate

C = Common equity

p = Preferred stock cost rate

P = Preferred stock

$$A_e = \left[1 - \frac{S}{W} \right] \left[p \left(\frac{P}{D+P+C} \right) + c \left(\frac{C}{D+P+C} \right) \right]$$

FERC Accounting Release 13

Question: A utility currently providing service to customers finances a specific plant construction project, such as pollution control facilities, with proceeds from an issue of long-term debt (bonds) which are restricted in their use to paying for construction expenditures. The proceeds of the debt are required to be retained in a trust or other special fund and invested until so used. Earnings of the trust or other special fund are available for paying project expenditures, debt interest, or reacquiring the bonds.

How should the long-term debt, the related interest cost and earnings on the trust or other special funds be accounted for during construction of the project facilities?

Answer: Follow Plant Instruction 3 (17). Average balances of the trust or other special funds should be included in the computation of the average balance of construction work in progress (AW@) used in the formula

Plant Instruction 3 (17)

Allowance for funds used during construction” includes the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on other funds when so used, not to exceed without prior approval of the Commission allowances computed in accordance with the formula prescribed in [Plant Instruction 3 (17)].

Plant Instruction 3 (17)

The rates shall be determined annually. The balances for long-term debt, preferred stock and common equity shall be the actual book balances as of the end of the prior year. The cost rates for long-term debt and preferred stock shall be the weighted average cost determined in the manner indicated in subpart D of part 154 of the Commission's Regulations Under the Natural Gas Act. The cost rate for common equity shall be the rate granted common equity in the last rate proceeding before the ratemaking body having primary rate jurisdiction. If such cost rate is not available, the average rate actually earned during the preceding three years shall be used. The short-term debt balances and related cost and the average balance for construction work in progress shall be estimated for the current year with appropriate adjustments as actual data becomes available.

Order 561 - Compounding

A number of respondents commented that previously capitalized AFUDC should be included in the cost base to which the AFUDC rate applies since AFUDC is a cost of construction similar to labor, materials and other elements of construction. Thus, it is asserted that the compound method must be recognized if AFUDC is to properly compensate the utility for use of funds while devoted to construction. We agree that compounding of AFUDC is proper in theory and necessary as a matter of sound cost determination; however, we believe that a monthly compounding of AFUDC as suggested by some respondents may result in excessive amounts capitalized since cash outlays for interest and dividends are not normally made on a monthly basis. We shall therefore permit compounding but no more frequently than semi-annually.

Gas Plant Instruction 2.C.

When property is purchased under a plan involving deferred payments, no charge shall be made to the gas plant accounts for interest, insurance, or other expenditures occasioned solely by such form of payment.

EEI/AGA Ongoing Initiatives

EEI/AGA Ongoing Initiatives

EEI and AGA are working together with Deloitte to develop and share industry expertise on FERC accounting and reporting through a number of means

5 Step Process:

- Step 1 - Posting of an historical report on FERC audit findings
- Step 2 – Periodic notifications from FERC staff to EEI and AGA when significant FERC Orders and Audit Reports are issued – EEI and AGA disseminate to their members
- Step 3 – Initiation of a quarterly report summarizing key FERC decisions and audit reports with accounting implications that were issued during the quarter (first report will be for Q4 2014 is expected in early 2015)

EEI/AGA Ongoing Initiatives

- Step 4 – Hot Topics alert developed and issued in February 2015 for our members to use in preparing the 2014 Form 1 (electric) and Form 2 (gas)
- Step 5 – Potentially host a one or two day workshop on FERC accounting and reporting matters to the extent there is sufficient interest expressed in our final polling question

EEI/AGA Ongoing Initiatives

[AGA website link](#)

[EEI website link](#)

Contacts:

Randall Hartman – rhartman@eei.org

Joe Martin – jmartin@aga.org

Dave Dougher – ddougher@eei.org



Questions?

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