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FIVE THINGS ABOUT FERC ACCOUNTING YOUR AUDITOR MAY NOT HAVE TOLD YOU

Your auditors naturally focus on your utility's application of current accounting standards. But they might not be as well versed in Federal Energy Regulatory Commission (FERC) accounting best practices or tell you that Generally Accepted Accounting standards (GAAP) and FERC accounting standards can work hand in hand to help manage your organization more effectively.

Here's five things your auditors may not have mentioned:

- 1. Generally Accepted Accounting standards must be followed. However, there are ways you can seamlessly use FERC accounting guidelines for work orders and fixed assets to complement GAAP requirements, allowing you to meet all accounting standards while also capturing additional powerful data you can use to manage your operations even more effectively.**

In the hierarchy of accounting, Financial Accounting Standards Board (FASB) standards are used by private sector entities (IOU's and cooperatives), and Governmental Accounting Standards Board (GASB) standards are used by public sector utilities (municipal utilities and joint action agencies). But FASB and GASB standards, especially in the vital areas of construction work orders and fixed assets, can fall a bit short. On the other hand, FERC accounting, especially the Uniform System of Accounts Plant Instructions, has a wealth of information on these elements which can greatly enable the optimal management of a utility.

The FASB/GASB standards discuss high-level construction accounting guidelines that are also covered by FERC. But FERC digs down into the details that are needed to build a solid work order and fixed asset framework, with a richness of information that is extremely valuable to all electric utilities. Building your accounting platform around FERC best practices will help ensure your organization has the information needed for all facets of utility construction accounting as well as rate design.

Furthermore, by having access to FERC-level information, utility leadership can easily share information, benchmark, and compare their operations to other similar utilities across the country—a uniquely helpful benefit that exists within the utility industry due to the non-competitive nature of regulated operations. Without a common data language provided by FERC, it is much harder to take advantage of this opportunity at the level of detail that provides the most benefits.

2. How a transaction is booked drives how it will be recovered in customer rates.

Utilizing the FERC USOA alongside FASB/GASB in a complementary coexistence provides many benefits to the cost of service and customer rate design processes. Where a transaction is recorded in the general ledger is the primary driver of its cost characteristic. The beauty of the FERC USOA is that it is activity based and designed to analyze utility costs by major cost of service components—demand, energy and customer costs. Focusing on the activity being performed using FERC best practices will feed directly into the electric cost of service and rate design process. Additionally, using the FERC USOA makes these processes more efficient and auditable. Unlike the FERC USOA, FASB and GASB standards do not always dig down to level of detail needed to transparently support cost of service and rate design processes.

3. You can use the FERC Uniform System of Accounts (USOA) even if tied to the accounting system used by the municipality's general fund software platform.

Perhaps your municipal electric utility is part of the municipality's general fund software platform. This is not an uncommon situation, but it does not prohibit taking advantage of FERC accounting standards to benefit the utility and its customers.

Many municipal utilities leverage an industry-specific software platform to complement the city-wide and industry-agnostic General Ledger or ERP software package. Packages like PowerPlan are built specifically to help utilities manage compliance and support both FERC and GAAP requirements; they can also serve as a subledger to support and optimize the management, analysis and reporting requirements of the utility, while integrating seamlessly with the city-wide financial and work management systems. Taking an approach like this doesn't require the FERC USOA to be baked into city-wide systems, nor does it require significant reconfigurations or customizations to those city-wide systems to capture the benefits of using the FERC USOA.

If you are using a city-wide software platform, you know that the chart of accounts string you are required to use can be a bit like solving a complicated math equation. The standard general fund chart of accounts number is "Entity-Component Unit-Fund-Function-Activity-sub activity" and can run as long as 15-20 digits or more. The largest part of the FERC USOA requires only three digits. These digits can either be reserved within the full chart of accounts for the utility's use, or can simply be a subset of the valid values for one of your chart fields (e.g. activity). This enables mapping to a subledger alongside your other chart of account information, and also provides the ability to do some analysis and data downloads to support reporting direct from the city-wide system.

4. FERC accounting allows deferral of major expenses as long as it is likely they will be used in rate recovery in the future – that's okay under accounting standards, too.

FERC USOA best practices are designed around utility and electric cooperative business needs, including how costs are recovered from customers through rates. There are times when major expenses are incurred, but a current rate increase is not feasible. Future recovery of these cost types can be deferred in FERC 182.3 - Other Regulatory Assets if it is "probable that such items will be included in a different period(s) for purpose of developing rates."¹ Once these costs are approved by the regulator for future rate recovery, they can be included in customer rates. Generally accepted accounting standards also support this approach through FASB ASC 980 - Regulated Operations and GASB 62 - Regulated Operations. Knowing that accounting standards have a backstop for deferred expense treatment should allow you to protect your income statement and defer major expenses for future rate recovery.

1 – Code of Federal Regulations (CFR): Title 18 - Conservation of Power and Water Resources, <https://www.govinfo.gov/content/pkg/CFR-2020-title18-vol1/pdf/CFR-2020-title18-vol1-part101.pdf> § Subchapter C - Account, Federal Power Act (2020).

5. XBRL (eXtensible Business Reporting Language) can enhance your utility financial reporting business processes and save time in preparing regulatory reports.

XBRL is a financial reporting framework that allows the exchange of financial information between the reporting platforms of different entities. For example, 167 FERC (18 CFR Parts 141 and 385), issued June 20, 2019, adopts XBRL as the standard for filing various FERC reports, including FERC Form 1. This direct linkage can save time in preparing FERC Form 1 and other regulatory filings. Utility specific packages like PowerPlan can help you apply XBRL in your utility or cooperative to streamline reporting and filing of FERC Reports like the FERC Form 1.

Make accounting standards work for the utility business model

Don't get bogged down in the "accounting standards vs. FERC" debate with your auditor. Both work seamlessly together, it's just a matter of understanding how and then executing accordingly. Applying FERC best practices—while also following GAAP from FASB and GASB—will ensure that your utility's business and reporting process needs are fully met and will give you all the information possible to manage your utility optimally for the benefit of your customers and stakeholders.

About the Author

Alex, a senior industry and solution strategist, advises PowerPlan executives and clients alike on key trends, best practices, and how clients can achieve maximum ROI from their PowerPlan deployments. Throughout his 20 years at PowerPlan, he has built extensive relationships with utilities of various sizes, offering a blend of deep technical expertise and strategic perspective. Alex founded the support function at PowerPlan and personally served in every role within this key function since its founding in 2001. Alex has worked side by side with more than 90 utilities across the United States and Canada. Prior to joining PowerPlan, Alex served in the treasury and accounting functions of PPG Industries, a Fortune 500 manufacturing firm. He graduated with distinction and Phi Beta Kappa from the University of North Carolina, Chapel Hill with a Bachelor of Arts in economics.