FEDERAL ENERGY REGULATORY COMMISSION
Washington, D.C. 20426

In Reply Refer To:
Office of Enforcement
Docket No. AI18-1-000
December 28, 2017

TO ALL JURISDICTIONAL PUBLIC UTILITIES AND LICENSEES, NATURAL GAS COMPANIES, OIL PIPELINE COMPANIES AND CENTRALIZED SERVICE COMPANIES

Subject: Accounting and Financial Reporting for Pensions and Post-retirement Benefits other than Pensions

The Financial Accounting Standards Board (FASB) has issued Accounting Standards Update (ASU) No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.* ASU No. 2017-07 amends FASB Accounting Standards Codification (ASC), Topic 715, *Compensation – Retirement Benefits,* to specify how the amount of pension costs and costs for post-retirement benefits other than pensions (PBOP) should be presented on the income statement under Generally Accepted Accounting Principles (GAAP), and what components of those costs are eligible for capitalization in assets. The Commission has received a number of inquiries from industry regarding clarification of whether and how to apply this ASU for purposes of regulatory accounting and reporting to the Commission. Accordingly, this accounting issuance is intended to provide clarity and certainty to industry on how they should apply the Commission's accounting and reporting requirements over pension and PBOP costs.

Pension and PBOP costs are made up of several components that reflect different aspects of an employer's financial arrangements as well as the cost of benefits earned by employees. Prior to this ASU, companies typically reported all of these components on an aggregate basis, without separating the various components on the financial statements. The amendments in this ASU require that an employer report the service cost component of pension and PBOP costs with other compensation costs arising from services rendered by employees during the period. Additionally, based on this ASU, these costs generally fall under a subtotal of income from operations for GAAP financial reporting. The other components of pension and PBOP costs are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. The amendments in this ASU also allow only the service cost component to be eligible for capitalization when all of the other normal criteria for capitalization under GAAP are met.

Based on the Commission's Uniform System of Accounts, Commission jurisdictional public utilities and licensees, natural gas companies, and centralized service companies recognize pension and PBOP costs in Account 926, Employee Pensions and Benefits,[1] while oil pipeline companies recognize pension and PBOP costs in Account 550, Employee Benefits,[2] if the pension and PBOP costs are not eligible for capitalization. The Commission's longstanding policy is to view these expenses as part of a single line item on the income statement in the Form No. 1, Form No. 1-F, Form No. 2, Form No. 2-A, Form No. 3-Q, Form No. 6, and Form No. 60 (collectively as FERC Forms), and that pension and PBOP costs in their entirety are attributable to the calculation of Net Utility Operating Income on the FERC Forms. The pension and PBOP expenses are recorded to the respective jurisdictional account without separation of the various components making up the pension and PBOP costs.

Regarding capitalization of pension and PBOP costs when the costs are incurred as part of a capital project, the Uniform System of Accounts does not specify whether capitalization of pension and PBOP costs should include or exclude the non-service cost components that make up the pension and PBOP costs. The instructions to Account 926 under the Uniform System of Accounts prescribed for public utilities and licensees, natural gas companies, and centralized service companies state that there shall be credited to this account the portion of pensions and benefits expenses which is charged to construction, and that records in support of this account shall be so kept that the amounts of pensions and benefits expenses transferred to construction or other accounts will be readily available. In practice, companies generally have capitalized both the service cost component and non-service cost components of the pension and PBOP costs in the past, as long as the capitalization of those costs were in compliance with Electric Plant Instruction No. 4, Gas Plant Instruction No. 4, or Service Company Property Instruction No. 367.52, of the Uniform System of Accounts. The instructions for Account 550 under the Uniform System of Accounts prescribed for oil pipeline companies similarly do not discuss service or non-service components of pension and PBOP costs to be transferred to construction.

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[1] *See* 18 C.F.R. Part 101, *Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act*; 18 C.F.R. Part 201, *Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act*; and 18 C.F.R. Part 367, *Uniform System of Accounts for Centralized Service Companies Subject to the Provisions of the Public Utility Holding Company Act of 2005*.

[2] *See* 18 C.F.R. Part 352, *Uniform System of Accounts Prescribed for the Oil Pipeline Companies Subject to the Provisions of the Interstate Commerce Act*.

The focus of the Commission's accounting regulations is to ensure that the Commission and other stakeholders have available to them financial information about jurisdictional entities that is useful for the development and monitoring of rates. The uniform application of the Commission's accounting regulations is essential in providing comparability and decision-useful information to the Commission and stakeholders to reach informed rate decisions and conclusions. Accordingly, the objective of this guidance is to provide clarification as to how all jurisdictional entities should account for and report pension and PBOP costs, in response to ASU No. 2017-07.

The guidance is being provided to all jurisdictional entities to ensure proper and consistent application of the Commission's accounting requirements over pension and PBOP costs in response to ASU No. 2017-07 for Commission financial reporting purposes. This guidance is for Commission accounting and reporting purposes only and is without prejudice to the ratemaking practice or treatment that should be afforded the items addressed herein.

1. ACCOUNTING FOR PENSION AND PBOP COSTS ON THE INCOME STATEMENT

Question: How should jurisdictional entities account for pension and PBOP costs on the income statement for Commission accounting and reporting purposes?

Response: Jurisdictional public utilities and licensees, natural gas companies, and centralized service companies should record pension and PBOP costs in their entirety in Account 926, while oil pipeline companies should record pension and PBOP costs in their entirety in Account 550, provided the costs are not transferred to construction.

Pension and PBOP costs are made up of several components: service cost, interest cost, actual return on plan assets, gain or loss, amortization of prior service cost or credit, and amortization of any transition asset or obligation existing at the date of initial application of ASC Subtopic 715-30. Though pension and PBOP costs are computed using the aggregate total of these various components, the Commission's longstanding policy is to consider the amount as a singular cost to the employer. This cost is calculated based on Statement of Financial Accounting Standards (SFAS) No. 106[3] and reported as an accrued expense under net income from continuing operations.

[3] SFAS No. 106 was superseded for GAAP reporting purposes by ASC Topic 715 in 2009 when FASB codified all of the former accounting statements into ASC topics, but the calculations under both SFAS No. 106 and ASC 715 to arrive at the pension and PBOP costs remained the same.

Accordingly, there is one account designated for pension and PBOP costs under each respective Uniform System of Accounts for public utilities and licensees, natural gas companies, centralized service, and oil pipeline companies. This accounting is consistent with the rate treatment of pension and PBOP costs to most jurisdictional entities with cost-of-service rates. While there are some varying rate schemes approved by the Commission and other regulatory bodies to calculate recoverable pension and PBOP costs in cost-of-service rates, the Commission has determined that a uniform requirement for how jurisdictional entities should account for and report pension and PBOP costs are most conducive to promoting comparability and decision-usefulness of the information.[4] As such, we will continue to require all jurisdictional entities to recognize pension and PBOP costs on the income statement, in its entirety without disaggregation of its various components, in the currently existing account designated for pension and PBOP costs under each respective Uniform System of Accounts.

2. CAPITALIZATION OF PENSION AND PBOP COSTS

Question: Is it appropriate for jurisdictional entities to capitalize pension and PBOP costs using the method prescribed under ASU No. 2017-07?

Response: Provided that the pension and PBOP costs are based on appropriate labor costs and have a definite relation to construction as required under Electric Plant Instruction No. 4, Gas Plant Instruction No. 4, and Service Company Property Instruction No. 367.52, jurisdictional entities may continue to capitalize the service cost component and non-service cost components of pension and PBOP costs as it has traditionally been the widely accepted practice, or they may elect to capitalize only the service cost component of pension and PBOP costs, as prescribed by ASU No. 2017-07. Both methods are appropriate and are not precluded by the Commission's accounting requirements.

The Commission's Uniform System of Accounts prescribed for public utilities and licensees, natural gas companies, and centralized service companies do not require any specific method to determine the components of pension and PBOP costs to be included or excluded from capitalization, as long as the capitalization is based on labor costs and have a definite relation to construction. The instructions to Account 926 only requires that records in support of this account shall be so kept that the amounts of pensions and benefits expenses transferred to construction or other accounts will be readily available. Additionally, Electric Plant Instruction No. 4, Gas Plant Instruction No. 4, and Service

[4] *See* California Independent System Operator Corporation, 126 FERC ¶ 61,263 (2009), *order on reh'g*.

Company Property Instruction No. 367.52 require overhead costs allocated to construction and capitalized to have a definite relation to the construction, either based on direct charges using employee time tracking or special studies. The Uniform System of Accounts prescribed for oil pipeline companies similarly do not discuss the service or non-service components of pension and PBOP costs to be included or excluded from capitalization.

Because there is no definitive requirement under the Uniform Systems of Accounts requiring specific identification of pension and PBOP cost components to be capitalized, outside of the requirement for the capitalization to be based on appropriate labor costs and to have a definite relation to construction, jurisdictional entities may elect to follow the capitalization required under ASU No. 2017-07. It is also acceptable to continue capitalizing all of the pension and PBOP costs, as companies have done so prior to the issuance of the ASU. Either approach will not conflict with the existing requirements under the Uniform System of Accounts, provided that the method of capitalization adheres to Electric Plant Instruction No. 4, Gas Plant Instruction No. 4, and Service Company Property Instruction No. 367.52.

Question: How should jurisdictional entities account for deferred income taxes related to property, plant, and equipment which include capitalized pension and PBOP costs, if those amounts of pension and PBOP costs capitalized for regulatory accounting and reporting to the Commission differ from the amounts capitalized for GAAP reporting purposes?

Response: Jurisdictional entities must account for and report deferred income taxes to the Commission based on the temporary differences between the basis of assets reported to the Internal Revenue Service (IRS) and the basis of assets reported to the Commission. Similarly, the amount of deferred income tax reversals in subsequent periods must be based on the difference between the revenues and expenses used for reporting to the IRS and the revenues and expenses recognized for reporting to the Commission. Balances used in GAAP reporting should not be a factor in determining the deferred income tax balances reported to the Commission. Jurisdictional entities must be able to reconcile deferred income tax balances reported on the financial statements filed with the Commission with the respective asset and liability balances on those same set of financial statements.

3. DISCLOSURES AND FUTURE FILINGS TO THE COMMISSION

Question: What are the required disclosures or filings to the Commission related to changes made to a jurisdictional entity's accounting practice in response to ASU No. 2017-07?

Response: Jurisdictional entities should disclose any changes in accounting practice in response to ASU No. 2017-7 in their respective FERC Forms filed to the Commission quarterly and annually, within the Notes to the Financial Statements. Disclosures should include potential rate impacts resulting from these changes, including the effects on rate base and current period expenses. Jurisdictional entities should also make similar disclosures on future rate filings, as applicable.

Question: What are the required procedures for jurisdictional entities that want to change its capitalization policy over pension and PBOP costs after the 2018 reporting period?

Response: While either approach to capitalization of pension and PBOP costs as discussed herein is acceptable, there is a risk that the approach elected by companies will change from one period to the next in order to influence rate outcomes. Accordingly, jurisdictional entities are required to be consistent in all future periods using the capitalization approach elected after effectuation of ASU No. 2017-07 or during the 2018 reporting period. They must write in to the Commission for approval if there is any change of capitalization policy for pension and PBOP costs in the future.

The Commission delegated authority to act on this matter to the Director of the Office of Enforcement or his designee under 18 C.F.R. § 375.311 (2017). The Director has designated this authority to the Chief Accountant. This letter constitutes final agency action. Your company may file a request for rehearing with the Commission within 30 days of the date of this order under 18 C.F.R. § 385.713 (2017).

Sincerely,

Bryan K. Craig
Chief Accountant and Director
Division of Audits and Accounting
Office of Enforcement

Document Content(s)