Articles + Publications | July 14, 2023

FERC Establishes Revised Accounting Rules to Address Renewables, Storage, and RECs

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Introduction

On June 29, the Federal Energy Regulatory Commission (FERC or Commission) issued Order No. 898, a final rule that revises FERC's Uniform System of Accounts (USofA) by adding functional detail concerning the accounting treatment of certain renewable and storage technologies, and creating new accounts for renewable energy credits (RECs) (now termed Environmental Credits), as well as certain hardware, software, and communication equipment (Final Rule).[1] FERC also amended the relevant FERC forms to accommodate these changes. The Final Rule will become effective January 1, 2025.

FERC's latest effort to revise the USofA, which has not been significantly modified since 2013,[2] is to account for rapid changes in technology and resource mix in the U.S. energy industry over recent decades.[3] According to FERC, the reforms adopted in the Final Rule will provide uniformity, consistency, and transparency in accounting and reporting for investments in renewable and storage technologies, and assist the Commission in fulfilling its duties under the Federal Power Act (FPA) to ensure that rates remain just and reasonable.[4] The Final Rule follows a Notice of Proposed Rulemaking (NOPR),[5] which itself follows a Notice of Inquiry (NOI)[6] and a separate petition for rulemaking.[7]

As FERC explained in the NOPR and NOI, the USofA does not have production accounts designated specifically for solar, wind, or other renewable generating assets, thus public utilities instead record non-hydro renewable generating assets in the "Other Production" accounts.[8] Accordingly, FERC concluded that "the USofA must be modified to clarify how public utilities should account for non-hydro renewable generating assets, to avoid inconsistencies in accounting and reporting, and to facilitate the ratemaking process."[9]

Creation of New Subfunctions and Accounts for Non-Hydro Renewables

In the Final Rule, the Commission adopts new Production Plant subfunctions and related accounts under the USofA for non-hydro renewable generators.[10] The three subfunctions include Solar Production, Wind Production, and Other Renewable Production.[11] Within these subfunctions, the Commission includes the following five accounts, which are similar to existing accounts in other Production Plant subfunctions: Land and Land Rights;[12] Structures and Improvements;[13] Other Accessory Electrical Equipment;[14] Miscellaneous Power Plant Equipment;[15] and Asset Retirements Costs.[16] The Commission is retaining the "Other Production" subfunction to preserve flexibility for technological change.[17]

Additionally, the Commission adopts three accounts for the new Solar Production and Wind Production subfunctions that are unique to renewable technologies more generally. These include accounts for Collector Systems;[18] Generation Step-up Transformers (GSU);[19] and Inverters.[20] The Final Rule clarifies that a collector system "extends up to, but does not include, the substation prior to interconnection to the grid" and explicitly does not include cost of interconnection equipment such as transformers.[21] The Final Rule further clarifies that the account for GSUs is designated for GSUs that step up voltage to support collector systems and should not be used for GSUs that step up voltage to transmission.[22] This is because the former does not connect to the transmission or distribution system whereas the latter does and is more appropriately recorded with substations in accounts for Station Equipment.[23]

Further, the Commission adopts new accounts for each subfunction that are unique to that subfunction more specifically. For Solar Production, the Commission adopts an account for Solar Panels.[24] For Wind Production, the Commission has separated the reporting of turbines, as well as towers and fixtures.[25] For Other Renewable Production, the Commission adds accounts for Fuel Holders, Boilers, and Generators.[26]

The Commission also adopts streamlined Operations and Maintenance (O&M) accounts for the three new Production Plant subfunctions plus a miscellaneous expense account "to house expenses that do not clearly fall within other specified accounts."[27] The Commission clarified that costs recorded here relate to the Plant Production Accounts.[28]

Finally, the Commission explained that accounting for tidal and wave resources should be placed under the Other Renewable subfunction.[29] The Commission declined to create new accounts for the accounting of hydrogen.[30] Instead, the Commission directed that hydrogen can be accounted for either as a fuel or an energy storage medium under existing accounts, as most appropriately aligns with the accounting instructions for such accounts.[31]

Creation of Energy Storage Function and Accounts

The Final Rule adopted, with revisions, the NOPR's proposal to establish a separate USofA functional class for Energy Storage.[32] According to FERC, the purpose of creating this functional class is to reduce record-keeping, depreciation, and retirement burden, and the opportunity for reporting error.[33] The Final Rule also creates Energy Storage function plant accounts for computer hardware, software, and communication equipment.[34]

The Final Rule removed the NOPR's proposed instructions to subpart C of Account 387.3 and the associated reporting on pages 414-16 of the FERC Form No. 1.[35] The Final Rule also consolidated the list of O&M accounts that the NOPR created for energy storage because of the comparative operational simplicity of storage systems.[36] However, the Final Rule added a miscellaneous maintenance account.[37]

Additionally, the Final Rule rejected the NOPR's proposal to move the costs of pumped storage plant, which are currently recorded within the Hydraulic Production subfunction, to the new energy storage function.[38] The Final Rule noted that because of the nature of these assets, pumped storage assets fit better in existing hydroelectric production accounts.[39]

Accounting Treatment for Renewable Energy Credits (RECs)

The Commission adopted its proposal in the NOPR to adopt new accounting and reporting treatment of RECs, with some modifications.[40] First, the Commission renamed the proposed REC accounts to “Environmental Credits,” to clarify that these accounts are for all types of environmental credits, including zero emissions credits and other allowances.[41] Entities may also designate subaccounts or other codes for different types of environmental credits unique to their operations.[42] Next, the Commission adopted the NOPR’s proposed changes to General Instruction No. 21.[43] These changes include retitling the instruction from “Allowances” to “Allowances and Environmental Credits,” removing the reference to the Clean Air Act in Part A, modifying the instruction to reference the new accounts adopted in the Final Rule, and modifying Parts A and C to refer to historical cost,[44] as well as other minor changes to correct typographical errors, among others.[45]

The Commission also adopted the NOPR’s proposal to treat Environmental Credits (formerly RECs) as inventory and clarified that Commission accounting and reporting regulations trump conflicting regulations by other accounting authorities.[46] The Commission explained that Environmental Credits are often utilized in a period other than that in which they are acquired and thus operate for utilities as an inventoriable asset.[47] The Commission also agreed with commenters that Environmental Credits are not generally the product of steam generation, and therefore their expenses more appropriately belong in the Other Power Supply expenses subfunction.[48] The Commission noted that, while its accounting and reporting regulations would prevail if in conflict with another accounting authority’s Environmental Credit treatment, utilities could “record regulatory assets or liabilities to record any differences between accounting and ratemaking treatment, or maintain separate records to accommodate the accounting treatment required by the different regulatory bodies.”[49]

The Commission agreed with commenters that expired RECs should be recorded in a new account, titled Losses from Disposition of Environmental Credits, and that that losses on speculative RECs trading should be recorded in Account 426.5 (Other Deductions).[50] Finally, with respect to inventory valuation, the Commission noted its preference for weighted average cost but that if specific state law or tariff provisions require utilities to use a different inventory method, “the economic reality of the transaction governs, with divergence from standard practice noted and explained in the FERC Form Nos. 1 and 3-Q disclosures.”[51]

Creation of Accounts for Computer Hardware, Software, and Communication Equipment

The Final Rule also adopted the NOPR’s proposal to establish several new accounts in each function and subfunction for computer hardware, software, and communication equipment to eliminate ambiguity and ensure greater consistency in FERC accounting.[52] The Commission added three plant accounts and three maintenance accounts to all functions and subfunctions, including the new Renewable Generation subfunctions and the new Energy Storage function.[53] The Commission also added a new Electric Plant Instruction No. 17, which directs that where computer hardware, software, and communication equipment is integrated as part of a larger retirement unit, it shall be recorded in the property account of the retirement unit purchased.[54] Where this computer hardware, software, or communication equipment is not integrated, Plant Instruction No. 10 should be followed.[55] The Commission clarified that if utilities are unable to identify the functional level of detailed balances of plant with associated accumulated depreciation, such balances may reside in the accounts initially used by the utilities.[56] Additionally, for hardware, software, and communication equipment that serves multiple functions, the Commission explained that utilities may record such assets based on predominant use or function, or alternatively, record such assets in the new General Plant accounts.[57] The Commission noted that fiber optic cables should be classified based on their purpose and function.[58] In response to commenters, the Commission further noted that the appropriateness of vintage depreciation is considered on a case-by-case basis within depreciation rate case proceedings.[59]

Reporting

The Final Rule adopted, with revisions, the NOPR's proposal to amend FERC Form Nos. 1, 1-F, and 3-Q (electric) to reflect the Final Rule's accounting changes.[60] These amendments include adding the new subfunctions for Wind, Solar, and Other Non-Hydro Renewable,[61] and adding a new Energy Storage function in the plant and operations and maintenance expense sections of the Forms.[62] As a result of these changes, the Final Rule includes in FERC Form No. 60 new rows for the summarized totals of the proposed new Energy Storage function and Generation sub-functions O&M accounts.[63] The Final Rule also adds new plant and maintenance expense accounts for computer hardware, software, and communication equipment within all functions and subfunctions to FERC Form Nos. 1, 1-F, and 3-Q (electric).[64]

The Final Rule also updates references in FERC Form Nos. 1, 1-F, and 3-Q (electric) to the proposed Other Non-Hydro Renewable subfunction to refer instead to the Other Renewable subfunction.[65] The Final Rule also updates references to RECs to instead reference environmental credits.[66] Additionally, the Final Rule maintained statistical plant pages 402-03 and 406-07.[67] Instead, the Final Rule added a new renewable generating plant statistical page 404 to FERC Form No. 1.[68]

Compliance Procedures

The Final Rule requires regulated entities to implement the Final Rule's requirements by January 1, 2025.[69] The Final Rule, however, does not require retroactive reporting in FERC Form Nos. 1 and 3-Q of these accounting changes.[70] The Final Rule also does not require a restatement of prior years in the initial Forms under the implementation of the new accounts.[71] The Final Rule also noted that historical balances should be transferred to the new accounts in the current year without restating balances for prior years.[72] The utilities' FERC Forms filed with the Commission should include the amounts transferred.[73]

The Final Rule also stated that existing depreciation rates should apply to the newly classified plant going forward, including vintage depreciation rates that are applied to non-General Plant, as well as current amortization rates being treated as vintage depreciation with identical rates.[74] The Final Rule noted that the appropriateness of this depreciation method will be considered on a case-by-case basis and will consider all of the appropriate information relevant to retirement units in the account.[75] The Final Rule also stated that jurisdictional utilities with formula rates could seek to update their formula rates to comply with this rule[76] via a single-issue filing under FPA Section 205 or other Section 205 formula rate update filing involving other matters.[77]

A copy of the Final Rule can be found here.

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[1] *Accounting and Reporting Treatment of Certain Renewable Energy Assets*, Order No. 898, 183 FERC ¶ 61,205

(2023) (Final Rule).

[2] *See Third-Party Provision of Ancillary Servs.; Acct. & Fin. Reporting for New Elec. Storage Tech.*, Order No. 784, 78 FR 46178 (July 30, 2013),144 FERC ¶ 61,056 (2013), *order on clarification*, Order No. 784-A, 146 FERC ¶ 61,114 (2014).

[3] Final Rule at P 1.

[4] *Id.*

[5] *See Acct. & Reporting Treatment of Certain Renewable Energy Assets*, Notice of Proposed Rulemaking, 87 FR 59870 (Oct. 3, 2022), 180 FERC ¶ 61,050 (2022).

[6] *See Acct. & Rep. Treatment of Certain Renewable Energy Assets*, Notice of Inquiry, 86 FR 7086, 174 FERC ¶ 61,032 (2021).

[7] *See Locke Lord LLP*, 174 FERC ¶ 61,033 (2021) (submitting petition to the Chief Accountant in Docket No. AC20-103 requesting confirmation that the costs of certain wind and solar generating assets should be booked to Other Production Accounts 343 (Prime Movers), 344 (Generators), and 345 (Accessory Electric Equipment)).

[8] Final Rule at P 18.

[9] *Id.*

[10] *Id.* at P 47.

[11] *Id.*

[12] Accounts 338.1, 338.20, 339.1.

[13] Accounts 338.2, 338.21, 339.2.

[14] Accounts 338.8, 338.29, 339.8.

[15] Accounts 338.12, 338.33, 339.12.

[16] Accounts 338.13, 338.34, 339.13.

[17] Final Rule at P 62.

[18] Accounts 338.5, 338.26.

[19] Accounts 338.6, 338.27.

[20] Accounts 338.7, 338.28.

[21] Final Rule at P 52.

[22] *Id.* at P 55.

[23] *Id.*

[24] Account 338.4.

[25] Accounts 338.23, 338.24.

[26] Accounts 339.3, 339.4, and 339.6, respectively.

[27] Final Rule at PP 59-60. These will be designated as Accounts 558.1-559.16.

[28] Final Rule at P 61.

[29] *Id.* at P 63.

[30] *Id.* at P 64.

[31] *Id.*

[32] *Id.* at P 72.

[33] *Id.*

[34] *Id.*

[35] *Id.* at P 73.

[36] Account 578.2 (Maintenance of Energy Storage Equipment and Structures (Major only)), Account 578.3 (Maintenance of Computer Hardware (Major only)), Account 578.4 (Maintenance of Computer Software (Major only)), Account 578.5 (Maintenance of Communication Equipment (Major only)), and Account 578.7 (Maintenance of Other Energy Storage Plant (Nonmajor only)).

[37] Account 578.6 (Maintenance of Miscellaneous Other Energy Storage Plant (Major only)).

[38] Final Rule at P 75.

[39] *Id.*

[40] *Id.* at P 87. While many commenters requested a technical conference to discuss implementation of the

proposed REC treatment, the Commission declined to address these requests as outside the scope of the instant rulemaking proceeding.

[41] *Id.* at P 89.

[42] *Id.*

[43] *Id.* at P 90.

[44] The purpose of this change is to make this instruction consistent with other existing regulatory text in the USofA.

[45] Final Rule at P 89.

[46] *Id.* at PP 77, 94.

[47] *Id.* at P 94. The Commission created two new inventory accounts for Environmental Credits: Account 158.3 (Bundled Environmental Credits Inventory), and Account 158.4 (Unbundled Environmental Credits Inventory).

[48] *Id.* at P 91. The Commission renamed and renumbered these expense accounts to Account 555.2 (Bundled Environmental Credits) and Account 555.3 (Unbundled Environmental Credits).

[49] *Id.* at P 94. The Commission noted, however, that utilities must disclose such alternative accounting in their FERC Form reports. *Id.*

[50] Account 411.12.

[51] Final Rule at P 97.

[52] *Id.* at P 99 ("The USofA was updated in 2005 to include accounts for recording computer hardware, software, and communication equipment owned by regional transmission organizations (RTO), but did not create comparable accounts for non-RTO public utilities and licensees to report these types of assets. Consequently, non-RTO public utilities do not record computer hardware, software, and communication equipment uniformly, with many utilities recording these assets in general accounts (e.g., Account 303 (Miscellaneous Intangible Plant) and Account 391 (Office Furniture and Equipment)).").

[53] *Id.* at P 100. These Accounts are: Accounts 315.1, 324.1, 334.1, 338.9, 338.30, 339.9, 345.1, 351.1, 363.1, 387.8, and 397.1 (Computer Hardware); Accounts 315.2, 324.2, 334.2, 338.10, 338.31, 339.10, 345.2, 351.2, 363.2, 387.9, and 397.2 (Computer Software); Accounts 315.3, 324.3, 334.3, 338.11, 338.32, 339.11, 345.3, 351.3, 363.3, 387.10, and 397.3 (Communication Equipment); Accounts 513.1, 531.1, 544.1, 553.1, 558.13, 558.33, 559.12, 578.7, 592.2, and 935.1 (Maintenance of Computer Hardware (Major only)); Accounts 513.2, 531.2, 544.2, 553.2, 558.14, 558.34, 559.13, 578.8, 592.3, 935.2 (Maintenance of Computer Software (Major only)); and Accounts 513.3, 531.3, 544.3, 553.3, 558.15, 558.35, 559.14, 578.9, 592.4, 935.3 (Maintenance of Communication Equipment (Major only)). *Id.* Consistent with the proposed accounts, the Commission also added

(Major only) to the account names for existing Transmission Expenses Maintenance Accounts 569.1, 569.2, 569.3. *Id.* Because the RTO function only exists for RTOs and independent system operators, the Commission did not propose this designation on its accounts (i.e., Accounts 576.2, 576.3, and 576.4). *Id.* These accounts have the same descriptions, instructions, and items as the existing RTO and Transmission function accounts of the same title. *Id.*

[54] *Id.* at P 101.

[55] *Id.*

[56] *Id.* at P 111.

[57] *Id.* at P 113.

[58] *Id.* at P 114. For example, fiber optic cables used as communication equipment should be recorded in the new functional accounts for communication equipment. *Id.*

[59] *Id.* at P 115.

[60] *Id.* at P 125.

[61] *Id.*

[62] *Id.*

[63] *Id.* at P 118.

[64] *Id.* at P 120.

[65] *Id.* at P 125.

[66] *Id.*

[67] *Id.* at P 127.

[68] *Id.*

[69] *Id.* at P 136.

[70] *Id.*

[71] *Id.*

[72] *Id.*

[73] *Id.*

[74] *Id.* at P 137.

[75] *Id.* at P 137.

[76] *Id.* at P 138.

[77] *Id.*

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