In Reply Refer To:
OED-DRAP
Docket No. AI04-1-000
December 12, 2003

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

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards No. 150 (SFAS No. 150), Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity. This statement establishes standards for classifying and measuring certain financial instruments with characteristics of both liabilities and equity in general purpose financial statements.

The Commission's Uniform Systems of Accounts for jurisdictional entities do not provide specific implementation guidance with regard to accounting and reporting matters contained in this pronouncement.[1] The following guidance is being provided to all jurisdictional entities concerning the accounting and reporting of certain financial instruments falling within the scope of SFAS No. 150 in the Annual Report Form Nos. 1, 1-F, 2, 2A, and 6.

1. ADOPTION OF SFAS NO. 150 FOR FERC ACCOUNTING AND REPORTING PURPOSES

Background: SFAS No. 150 at paragraph 29 states that this statement will be effective for financial instruments entered into or modified after May 31, 2003, and will be effective for existing financial instruments at the beginning of the first interim period beginning after June 15, 2003. Additionally, there is an exception which permits nonpublic entities to delay the effective date for mandatorily redeemable financial instruments.

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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 (2003); 18 C.F.R. Part 201 Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act (2003); 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 (2003).

Question: Should jurisdictional entities adopt this statement for reporting to the Commission in the same manner as it is adopted for stockholder reporting?

Response: Yes, the adoption of SFAS No. 150 for reporting to the Commission shall parallel its adoption for stockholder reporting.

2. ACCOUNTING FOR LIABILITIES

Background: SFAS No. 150 requires entities to classify, as a liability, certain financial instruments that embody an obligation of the entity.

Question: Which FERC accounts should an entity use to record financial instruments within the scope of SFAS No. 150?

Response: Public utilities and licensees and natural gas companies shall use a separate subaccount of Account 224, Other Long-Term Debt, or Account 223, Advances from Associated Companies, as appropriate to record amounts relating to obligations having a fixed settlement date and payment amount. All other financial instruments shall be recorded in Account 253, Other Deferred Credits. Oil pipeline companies shall use a separate subaccount of Account 60, Long-Term Debt Payable after One Year, to classify obligations with a fixed settlement date and payment amount and all other financial instruments shall be classified in Account 63, Other Noncurrent Liabilities. Jurisdictional entities shall use this accounting to reclassify existing financial instruments and to initially record subsequent financial instruments within the scope of SFAS No. 150.

3. ACCOUNTING FOR INTEREST EXPENSE

Background: Under SFAS No. 150, any payments to holders of financial instruments falling within the scope of the statement in excess of the initial measurement amount will be reported as interest costs.

Question: Which expense account should an entity use to record amounts paid to holders in excess of initial measurement for reporting to the Commission?

Response: Public utilities and licensees, and natural gas companies shall use a separate subaccount of Account 427, Interest on Long-Term Debt, or Account 430, Interest on Debt to Associated Companies, as appropriate, and oil pipeline companies shall use a separate subaccount of Account 650, Interest Expense, to record amounts paid to holders of financial instruments covered by SFAS No. 150 in excess of the initial investment amount.

4. DISCLOSURE REQUIREMENTS IN THE FERC ANNUAL REPORT

Background: Under SFAS 150, paragraphs 26 - 28, issuers of financial instruments are required to make certain disclosures. These disclosures will show the nature and terms of the financial instruments and the rights and obligations embodied in those instruments. Also, the disclosures will include information on settlement alternatives in the contract and identify the entity that controls the settlement alternatives.

Question: Where should jurisdictional entities include the disclosure requirements prescribed by SFAS No. 150, paragraphs 26 - 28, for reporting to the Commission in the FERC Annual Report Forms 1, 1-F, 2, 2A, and 6?

Response: A jurisdictional entity should include all disclosures as required under SFAS No. 150 in the Notes to the Financial Statements for reporting to the Commission.

5. COST-OF-SERVICE TARIFFS/FORMULA RATE

Background: Jurisdictional entities have a cost-of-service tariff and/or a formula rate under which amounts billed each month will change based on amounts recorded in FERC's Uniform System of Accounts. Under the tariff/formula rate, only amounts recorded in certain specified accounts affect the monthly billings.

Question: May jurisdictional entities include in their monthly billings any amounts recognized or reclassified in connection with the implementation of SFAS No. 150 for FERC reporting purposes?

Response: No. Adoption of the accounting guidance contained in this letter is for FERC accounting and reporting purposes only, and may not affect the measurement or periods in which amounts are included in jurisdictional entities' billing determinations without prior regulatory approval. If an entity's billing determinations are affected by the adoption of the guidance contained in this letter, the entity shall make a filing with the proper rate regulatory authorities before implementing the accounting change for billing purposes.

6. ACCOUNTING FOR THE CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

Background: SFAS No. 150 states that contracts created before the issuance date of the statement and existing at the beginning of that interim period will be transitioned by reporting the cumulative effect of a change in accounting principle which results in a charge or credit to the income statement.

Question: Which income statement account should an entity use to record the cumulative effect of a change in accounting principle for reporting to the Commission?

Response: Public utilities and licensees and natural gas companies shall use Account 435, Extraordinary Deductions, to classify the cumulative effect of a change in accounting principle and oil pipeline companies shall use Account 697, Cumulative Effect of Changes in Accounting Principles.

Finally, jurisdictional entities should seek clarification from the Chief Accountant concerning the proper application or implementation of any accounting standard under the Commission's existing regulations.

Authority to act on this matter is delegated to the Chief Accountant pursuant to § 375.303 of the Commission's regulations. This Guidance Letter constitutes final agency action. Requests for rehearing must be filed within 30 days of the date of issuance of this letter, pursuant 18 C.F.R. § 385.713.

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and Chief Accountant