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FEDERAL ENERGY REGULATORY COMMISSION
Office of Enforcement
Washington, D.C. 20426

In Reply Refer To:
OE
Docket No. AI07-1-000
March 29, 2007

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

Subject: Commission Accounting and Reporting Guidance to Recognize the Funded Status of Defined Benefit Postretirement Plans

The Financial Accounting Standards Board (FASB) has issued Statement of Financial Accounting Standards No. 158 (SFAS No. 158 or the Statement), Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans. This statement requires an employer to recognize the overfunded or underfunded status of a single-employer defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity. SFAS No. 158 also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position.

A defined benefit postretirement plan is one that defines an amount of postretirement benefit to be provided to retirees. Pension benefits are usually defined as a function of one or more factors such as age, years of service or compensation. Postretirement benefits other than pensions are usually defined in terms of (a) monetary amounts (for example, $100,000 of life insurance) or (b) benefit coverage to be provided (for example, up to $200 per day for hospitalization, 80 percent of the cost of specified surgical procedures). Postretirement benefits include, but are not limited to, pension benefits; postretirement health care; life insurance provided outside of a pension plan to retirees; and other welfare benefits such as tuition assistance, day care, legal services, and housing subsidies provided after retirement.

The Commission's Uniform Systems of Accounts for jurisdictional entities do not provide specific implementation guidance with regard to the accounting and reporting

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matters contained in SFAS No. 158.[1] The following guidance is being provided to all jurisdictional entities to ensure proper and consistent implementation of SFAS No. 158 for FERC financial reporting purposes beginning with the 2007 FERC Form Nos. 1, 1-F, 2, 2-A, 6, and 60 due to be filed in 2008. Earlier implementation is encouraged.

This guidance is for FERC financial accounting and reporting purposes only and is without prejudice to the ratemaking practice or treatment that should be afforded the items addressed herein.

1. ADOPTION OF SFAS NO. 158 FOR FERC ACCOUNTING AND REPORTING PURPOSES

Background: SFAS No. 158 provides guidance on recognition of the funded status of a single-employer defined benefit postretirement plan, measurement date of plan assets and benefit obligations, disclosure requirements, effective dates and transition provisions for its initial implementation. Some provisions allow employers certain choices in how to implement the Statement for stockholder reporting purposes. For example, paragraph numbers 12, 13, and 15 contain explicit effective dates but also encourage applying the Statement earlier than the explicit effective dates. Also, paragraph number 17 allows alternative approaches for an employer to transition to a fiscal year-end measurement date for plan assets and benefit obligations.

Question: Should jurisdictional entities adopt this Statement for reporting to the Commission and must it do so in the same manner as the Statement is adopted for stockholder reporting?

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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* (2006); 18 C.F.R. Part 201, *Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act* (2006); 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* (2006); 18 C.F.R. § 366.22, *Accounts and records of service companies* (2006) 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*, Order No. 684, issued October 19, 2006, *Financial Accounting, Reporting and Records Retention Requirements Under the Public Utility Holding Company Act of 2005*, FERC Stats. & Regs. ¶ 31,229 (2006).

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Response: Yes, FERC jurisdictional entities should adopt SFAS No. 158 for reporting to the Commission and it should do so in the same manner as the Statement is adopted for stockholder reporting.

2. ACCOUNTS FOR RECORDING THE OVERFUNDED OR UNDERFUNDED STATUS OF POSTRETIREMENT DEFINED BENEFIT PLANS

Background: Paragraph number 4 of SFAS No. 158 requires an entity that presents a classified statement of financial position to classify the liability for an underfunded single-employer defined postretirement benefit plan as a current liability, noncurrent liability, or combination of both. The asset for an overfunded plan must be classified as a noncurrent asset in a classified statement of financial position.

Question 2A: What FERC accounts should jurisdictional entities use to record an asset for the overfunded status of one or more employee postretirement benefit plans?

Response: Public utilities and licensees, natural gas companies, oil pipeline companies and centralized service companies should use the accounts shown below to record assets for the overfunded status of their employees postretirement benefit plans. Separate subaccounts should be maintained for each postretirement benefit plan and overfunded plans should not be netted against underfunded plans, consistent with paragraph number 4 of SFAS No. 158.

Jurisdictional Entity	**FERC Accounts**
Public utilities and licensees (Major)	Account 129, Special funds
Public utilities and licensees (Nonmajor)	Account 128, Other special funds, or Account 129, Special funds
Natural gas companies	Account 128, Other special funds
Oil pipeline companies	Account 22, Sinking and other funds
Centralized service companies	
• Periods prior to January 1, 2008	Account 124, Other investments, or Account 128, Other special funds
• January 1, 2008 and subsequent periods	Account 128, Other special funds

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Question 2B: What FERC accounts should jurisdictional entities use to record the liability for the underfunded status of one or more employee postretirement benefit plans?

Response: Public utilities and licensees, natural gas companies, oil pipeline companies and centralized service companies should use the accounts shown below to record liabilities for the underfunded status of their employee postretirement benefit plans. Separate subaccounts should be maintained for each postretirement benefit plan and underfunded plans should not be netted against overfunded plans, consistent with paragraph number 4 of SFAS No. 158.

Jurisdictional Entity	**FERC Accounts: Current Liability**	**FERC Accounts: Noncurrent Liability**
Public utilities and licensees (Major and Nonmajor)	Account 242, Miscellaneous current and accrued liabilities	Account 228.3, Accumulated provision for pensions and benefits
Natural gas companies	Account 242, Miscellaneous current and accrued liabilities	Account 228.3, Accumulated provision for pensions and benefits
Oil pipeline companies	Account 58, Other current liabilities	Account 63, Other noncurrent liabilities
Centralized service companies		
• Periods prior to January 1, 2008	Account 242, Miscellaneous current and accrued liabilities	Account 253, Other deferred credits
• January 1, 2008 and subsequent periods	Account 242, Miscellaneous current and accrued liabilities	Account 228.3, Accumulated provision for pensions and benefits

3. RECOGNITION OF RELATED REGULATORY ASSETS AND LIABILITIES

Background: An entity provides pension and other postretirement benefits to its employees under defined benefit plans and recognizes the related expense, *i.e.*, net periodic pension and other postretirement benefit costs, for financial accounting and reporting purposes in accordance with Statement of Financial Accounting Standards Nos.

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87 (SFAS No. 87) and 106 (SFAS No. 106).[2] The rates the entity charges for services provided by a segment of its business are regulated by a third party regulator and are determined on the basis of the entity's costs. Development of the rates to be charged for services provided by this business segment include an allowance for postretirement benefits and the amount of that allowance is based on net periodic pension and other postretirement benefit costs determined in accordance with SFAS No. 87 and SFAS No. 106. The entity determines that it must recognize an asset for the overfunded status of its defined benefit pension plan and a liability for the underfunded status of its postretirement benefit plan other than pensions consistent with SFAS No. 158.

Question: At the time the entity recognizes its asset or liability to reflect the funded status of its postretirement benefit plans in accordance with SFAS No. 158, should it recognize a regulatory liability or asset for the amount of the funded status asset or liability otherwise includible in accumulated other comprehensive income related to its cost-based, rate-regulated business segment?

Response: Under SFAS No. 87 and SFAS No. 106, the cost of postretirement benefits provided to employees under a defined postretirement benefit plan are recognized as an expense at the time the employee provides related employment services.

Both SFAS No. 87 and SFAS No. 106 contain a delayed recognition feature. This means that certain changes in postretirement benefit obligations and the value of assets set aside to meet the obligations are not recognized when they occur but are recognized systematically and gradually over subsequent periods.[3] SFAS No. 158 is an amendment to SFAS No. 87 and SFAS No. 106, but it did not change the delayed recognition feature of SFAS No. 87 and SFAS No. 106.

An entity that determines its postretirement benefits allowance included in its cost-based, regulated-rates on the basis of SFAS No. 87 and SFAS No. 106 adopts that same delayed recognition feature for ratemaking purposes. That is, changes in the postretirement benefit obligation and assets set aside to meet those obligations are not included in rates when they occur but rather are included in rates systematically and gradually in subsequent periods. The recognition of an asset or liability to reflect the funded status of postretirement benefit plans which would otherwise be charged to accumulated other comprehensive income therefore constitutes a measurement of the

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[2] Financial Accounting Standards Board's Statements of Financial Accounting Standards No. 87, *Employer's Accounting for Pensions* and No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions.*

[3] *Ibid. See Summary - Fundamentals of Pension Accounting*.

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changes in postretirement obligations and the value of plan assets that are to be included in the determination of rates in subsequent periods in so far as the amounts that would otherwise be charged to accumulated other comprehensive income relate to the cost-based, rate-regulated segment of the entity.

Under the Commission's accounting requirements, regulatory assets or liabilities are to be established for amounts that would have been included in net income or accumulated other comprehensive income determinations in the current period under the general requirements of the Uniform Systems of Accounts but for it being probable that such items will be included in a different period(s) for purposes of developing rates that the utility is authorized to charge for its utility services.

Therefore, in the circumstances described above and provided that it is probable that the postretirement benefit allowance to be included in rates in future periods will continue to be calculated on the basis of SFAS No. 87 and SFAS No. 106, entities shall recognize a regulatory liability or asset for the funded status asset or liability otherwise chargeable to accumulated other comprehensive income under SFAS No. 158 related to its cost-based, rate-regulated business segments.

Further, the funded status asset or liability that must be recognized under SFAS No. 158, as well as any related regulatory liability or asset is not amortized over future periods. At each measurement date, the entry recorded for the previous measurement date is reversed and the computation redone. A new funded status asset or liability and related regulatory liability or asset would be recognized, if required, at the new measurement date.

This guidance is for accounting purposes only and does not limit the Commission from reviewing the reasonableness of the elements of postretirement benefit expense included in future rate proceedings before the Commission.

4. FERC FORM NOS. 1, 1-F, 2, 2-A, 3-Q, 6 AND 6-Q REPORTING REQUIREMENTS

Background: The Commission's annual and quarterly FERC Form Nos. 1, 1-F, 2, 2-A, 3-Q, 6 and 6-Q contain a supporting schedule for reporting accumulated other comprehensive income. The supporting schedule contains a column for reporting the minimum pension liability chargeable to accumulated other comprehensive income under the requirements of SFAS No. 87 as it existed prior to the amendments called for by SFAS No. 158. SFAS No. 158 eliminates the concept of recognition of a minimum pension liability by amending paragraph numbers 36 - 38 of SFAS No. 87.

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Question: How should jurisdictional entities complete the supporting schedule for reporting accumulated comprehensive income contained in the Commission's Form Nos. 1, 1-F, 2, 2-A, 3-Q, 6, and 6-Q for amounts related to the funded status of defined pension and other postretirement benefit plans under SFAS No. 158?

Response: In the period of initial application of SFAS No. 158, a jurisdictional entity that had recorded a minimum pension liability in accumulated other comprehensive income in preceding periods, should report in column (c), Line No. 8, the amount required to produce a zero balance in column (c), Line No. 10 for the minimum pension liability adjustment. In periods subsequent to the initial application of SFAS No. 158, a jurisdictional entity should report in column (e), Line No. 7, the amount of reclassification adjustments of accumulated other comprehensive income as a result of gains or losses, prior service costs or credits and transition assets or obligations related to postretirement benefit plans being recognized as components of net periodic benefit cost of the period. All other amounts properly included in accumulated other comprehensive income, in the year of initial application and in subsequent periods related to the funded status of defined benefit postretirement benefit plans should be reported in column (e), Line No. 8.

Additionally filers should provide full particulars in a footnote to this schedule concerning amounts reported related to the funded status of defined benefit postretirement plans consistent with the disclosure requirements of SFAS No. 158.

5. ADJUSTMENTS TO RETAINED EARNINGS

Background: SFAS No. 158 requires an employer to measure the funded status of postretirement benefit plans as of the date of its year-end statement of financial position, with limited exceptions. Paragraph numbers 17 - 20 of SFAS No. 158 indicate that implementing the measurement date provisions of the Statement may require an adjustment to the opening balance of retained earnings.

Question: How should FERC jurisdictional entities recognize any required adjustment to the opening balance of retained earnings? Is a separate filing requesting Commission approval of that accounting required?

Response: Public utilities and licensees, natural gas companies, oil pipeline companies and centralized service companies should use the accounts shown below to record any adjustment to the opening balance of retained earnings required in connection with implementing SFAS No. 158 for FERC accounting and reporting purposes.

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This guidance letter constitutes the required Commission approval for use of these accounts for this purpose and a separate filing with the Commission requesting such approval is not needed. Public utilities and licensees, natural gas companies and oil pipeline companies should report any amounts recorded in the accounts listed below on the lines designated for these accounts in the Statement of Retained Earnings schedule contained in the FERC Form Nos. 1, 1-F, 2, 2-A, 3-Q, 6 and 6-Q.

Jurisdictional Entity	**FERC Accounts**
Public utilities and licensees (Major and Nonmajor)	Account 439, Adjustments to retained earnings
Natural gas companies	Account 439, Adjustments to retained earnings
Oil pipeline companies	Account 705, Prior period adjustments to beginning retained income account
Centralized service companies	
• Periods prior to January 1, 2008	Account 216, Unappropriated retained earnings
• January 1, 2008 and subsequent periods	Account 439, Adjustments to retained earnings

6. SUBSIDIARY FINANCIAL STATEMENTS

Background: Paragraph number 1 of SFAS No. 158 indicates that the Statement applies to single-employer defined benefit postretirement plans and does not change the accounting for a multiemployer plan. Paragraph number 68 of SFAS No. 87 and paragraph number 81 of SFAS 106 state that an employer participating in a multiemployer pension or other postretirement benefit plan shall recognize as net pension or other postretirement benefit cost the required contribution for the period and shall recognize as a liability any contribution due and unpaid. Questions and answers 86 and 87 in the FASB Special Report, A Guide to Implementation of Statement 87 on Employer's Accounting for Pensions, indicate that subsidiaries of an organization that has a defined benefit pension plan that covers employees at the parent company and subsidiary level should account for its participation in the overall single-employer pension plan as a participation in a multiemployer plan provided (a) each subsidiary is required to contribute to the pension plan based on a predetermined formula (for example, on a percentage-of-salary basis), (b) plan assets are not segregated or restricted on a subsidiary-by-subsidiary basis, and (c) if a subsidiary withdraws from the pension plan, the pension obligations for its employees are retained by the pension plan as opposed to being allocated to the withdrawing subsidiary.

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Question: How should a FERC jurisdictional entity account for its participation in a parent company sponsored pension or other defined benefit postretirement plan?

Answer: Public utilities and licensees, natural gas companies, oil pipeline companies and centralized service companies who prepare a separate financial statement for submission to the U.S. Securities and Exchange Commission, investors, or others and account for its participation in parent sponsored postretirement benefit plans as participation in a single-employer plan or multiple-employer plan in accordance with SFAS Nos. 87, 106, and 158, must follow the same accounting and reporting in financial statements contained in its FERC Form Nos. 1, 1-F, 2, 2-A, 3-Q, 6, 6-Q and 60.

7. COST-OF-SERVICE TARIFFS/FORMULA RATE

Background: Jurisdictional entities may have cost-of-service tariffs or formula rates under which amounts billed each month will change based on amounts recorded pursuant to the Commission's Uniform System of Accounts. Under the tariff or 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. 158 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.

The Commission delegated authority to act on this matter to the Chief Accountant under 18 C.F.R. § 375.303 (2006). This guidance 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 (2006).

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Chief Accountant and Director
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