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UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

18 CFR Parts 35, 101, 154, 201, 346, and 352

Docket No. RM02-7-000, Order No. 631

Accounting, Financial Reporting, and Rate Filing
Requirements for Asset Retirement Obligations

(Issued April 9, 2003)

AGENCY: Federal Energy Regulatory Commission.

ACTION: Final Rule.

SUMMARY: The Federal Energy Regulatory Commission (Commission) is amending its regulations to update the accounting and financial reporting requirements for asset retirement obligations under its Uniform Systems of Accounts for public utilities and licensees, natural gas and oil pipeline companies.

The Commission is establishing uniform accounting and financial reporting for the recognition and measurement of liabilities arising from retirement and decommissioning obligations of tangible long-lived assets, and related costs. More specifically, the Commission is adding new balance sheet accounts to record the liability and the related asset, new income statement accounts to record the accretion of the liability and the depreciation of the related asset, adding and revising as necessary the definitions, general and plant instructions contained in the Uniform Systems of Accounts. The Commission is also revising the following Annual Reports: FERC Form Nos. 1, 1-F, 2, 2-A, and 6 to include the new accounts contained in the Final Rule. Finally, the

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Commission is revising its rate filing requirements to address the above-mentioned changes.

An important objective of the rule is to provide sound and uniform accounting and financial reporting for the above types of transactions and events. The new accounts and changes to the FERC Forms will add visibility, completeness and consistency of the accounting and reporting of liabilities for asset retirement obligations and the related asset retirement costs, the accretion expense on the liability and the depreciation expense on the capitalized asset retirement costs.

EFFECTIVE DATE: The rule will become effective [insert 30 days after publication in the **FEDERAL REGISTER**].

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UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Pat Wood, III, Chairman;
William L. Massey, and Nora Mead Brownell.

Accounting, Financial Reporting, and Rate Filing
Requirements for Asset Retirement Obligations

Docket No. RM02-7-000

ORDER NO. 631

FINAL RULE

(Issued April 9, 2003)

I. INTRODUCTION

1. The Federal Energy Regulatory Commission (Commission) is revising its regulations to update the accounting, reporting and rate filing requirements. In a Notice of Proposed Rulemaking (NOPR) issued on October 30, 2002,¹ the Commission proposed to revise its Uniform Systems of Accounts² for public utilities and licensees,³

¹67 FR 69816 (Nov. 19, 2002) and 67 FR 70890 (Nov. 27, 2002), IV FERC Stats. & Regs. ¶ 32,565 (Oct. 30, 2002).

²Section 301(a) of the Federal Power Act (FPA), 16 U.S.C. 825(a), section 8 of the Natural Gas Act (NGA), 15 U.S.C. 717g and section 20 of the Interstate Commerce Act (ICA) 49 App.U.S.C. 20 (1988), authorize the Commission to prescribe rules and regulations concerning accounts, records and memoranda as necessary or appropriate for the purposes of administering the FPA, NGA and the ICA. The Commission may prescribe a system of accounts for jurisdictional entities and, after notice and opportunity for hearing, may determine the accounts in which particular outlays and receipts will be entered, charged or credited.

³Part 101 Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act. See 18 CFR Part 101 (2002).

natural gas companies⁴ and oil pipeline companies⁵ by establishing uniform accounting requirements for the recognition of liabilities for legal obligations associated with the retirement of tangible long-lived assets and the associated capitalization of these amounts as part of the cost of the asset giving rise to the obligation.

2. An asset retirement obligation is a liability resulting from a legal obligation to retire or decommission a plant asset. The types of work activities typically include removing or dismantling the asset. For example, public utilities have a legal liability to decommission nuclear plants under certain Nuclear Regulatory Commission (NRC) regulations. The type of activities may include the dismantlement and removal of the reactor vessel and the related contaminated facilities.

3. After carefully considering the comments received, the Commission has determined that a Final Rule revising its accounting regulations, Annual Report Forms (FERC Form Nos.1, 1-F, 2, 2-A and 6), and rate filing requirements for asset retirement obligations should be issued.

4. The purpose of this Final Rule is to improve the usefulness and transparency of financial information provided to the Commission and other users of the FERC Forms by

⁴Part 201 Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act. See 18 CFR Part 201 (2002).

⁵Part 352 Uniform System of Accounts Prescribed for Oil Pipeline Companies Subject to the Provisions of the Interstate Commerce Act. See 18 CFR Part 352 (2002).

establishing uniform accounting and reporting requirements for legal obligations associated with the retirement of tangible long-lived assets. The Commission is of the view that such requirements are needed because these types of transactions and events are not clearly or consistently reported. This rule is part of the Commission's ongoing effort to address emerging accounting developments within the context of the Uniform Systems of Accounts.

5. The accounting for asset retirement obligations in this rule is consistent with the accounting and reporting requirements that jurisdictional entities will use in their general purpose financial statements provided to shareholders and the Securities Exchange Commission (e.g., companies will separately account and report the liability for the asset retirement obligations, capitalize the asset retirement costs, charge earnings for depreciation of the asset and charge operating expense for the accretion of the liability).

6. The Commission is also revising its rate filing requirements to accommodate the above-mentioned changes. In that regard, the accounting for asset retirement obligations will not affect jurisdictional entities' ability to seek recovery of costs arising from asset retirement obligations in rates. However, if billings under formula rate tariffs are affected by the adoption of these accounting requirements, the jurisdictional entity must obtain approval from the Commission prior to implementing the change for tariff billing purposes.

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7. Finally, the Commission is revising the following Annual Reports: FERC Form No. 1, Annual Report of Major Public Utilities, Licensees and Others (Form 1); FERC Form No. 1-F, Annual Report of Nonmajor Public Utilities and Licensees (Form 1-F); FERC Form No. 2, Annual Report of Major Natural Gas Companies (Form 2); FERC Form No. 2-A, Annual Report of Nonmajor Natural Gas Companies (Form 2-A); and FERC Form No. 6, Annual Report of Oil Pipeline Companies (Form 6) to include the new accounts and the revised schedules.⁶

II. BACKGROUND

8. The recognition and measurement of legal liabilities associated with the retirement and decommissioning of long-lived assets by various entities, including Commission jurisdictional entities, have been inconsistent over the years. Some jurisdictional entities do not recognize asset retirement obligations in their accounts while other jurisdictional entities only recognize the amounts included in the rate setting process as a component of accumulated depreciation. The Commission, in an effort to eliminate the inconsistencies in accounting practices by jurisdictional entities for asset retirement obligations, issued its October 30, 2002 Notice of Proposed Rulemaking to revise the accounting

⁶The FERC Annual Reports bear the following OMB approval control numbers: Form 1 has OMB approval number 1902-0021; Form 1-F has OMB approval number 1902-0029; Form 2 has OMB approval number 1902-0028; Form 2-A has OMB approval number 1902-0030; and Form 6 has OMB approval number 1902-0022.

regulations, FERC Annual Report Forms and rate filing requirements for asset retirement obligations.⁷

9. The scope of the NOPR covered certain legal obligations associated with the future retirement of long-lived assets. These obligations, generally referred to as asset retirement obligations, are legal obligations associated with the retirement of a tangible long-lived asset that an entity is required to settle as a result of an existing enacted law, statute, ordinance, or written or oral contract or by legal construction of a contract under the doctrine of promissory estoppel.⁸

10. In the NOPR, the Commission broadly set forth the proposed accounting framework for asset retirement obligations as follows:

11. An entity essentially recognizes a liability for the fair value of an asset retirement obligation at the time the asset is constructed, acquired, or when a change in the law creates a legal obligation to perform the retirement activities. Upon initial recognition of that liability, an entity also increases the cost of the related asset that gives rise to the legal obligation by the same amount. The liability is increased over time until the actual retirement activity commences. Additionally, the asset retirement cost capitalized is depreciated over the same life of the related asset giving rise to the obligation. An entity

⁷See supra note 1.

⁸See Financial Accounting Standards Statement (FAS) No. 143, Accounting for Asset Retirement Obligations, issued in June 2001. The accounting publication may be obtained from FASB at <http://www.fasb.org/>. Appendix A, paragraphs A2 through A5, contains a discussion of legal obligations.

is required to re-measure the liability due to the passage of time and certain other changes in the estimate of the liability.

12. Entities will be required to recognize the liabilities for asset retirement obligations and the related costs as if the new standard had been in effect for all prior periods. The difference between the amounts at the date of adoption and the amounts previously recorded for these items are to be included in net income unless the criteria for recognition of regulatory assets or liabilities are met under Order No. 552.⁹

III. DISCUSSION

13. The Commission received 16 comments concerning various aspects of the proposed rule.¹⁰ The majority of the commenters were generally supportive of the Commission's effort to provide interpretative guidance on the application of generally accepted accounting principles to jurisdictional entities that presently file financial information with the Commission in Annual Report Forms 1, 1-F, 2, 2-A, and 6.¹¹

⁹See Order No. 552, 58 FR 17982 (Apr. 7, 1993), FERC Stats. & Regs., Regulations Preambles January 1991-June 1996 ¶ 30,967 at pp. 30,823-26 (Mar. 31, 1993) for guidance on the recognition of regulatory assets and regulatory liabilities when certain conditions are met.

¹⁰See Appendix A for Listing of Commenters.

¹¹See Arkansas PSC at p. 2, Deloitte & Touche at p. 1, FirstEnergy at p. 2, NASUCA at pp. 2-3, NRECA at pp. 3-4, Progress Energy at p. 1 and Southern at p. 1.

14. After careful consideration of the comments received, the Commission is adopting the changes and revisions as proposed with certain modifications and clarifications as discussed below.

A. Accounting for the Cumulative Effect Adjustment

15. Upon initial implementation of the new accounting requirements for asset retirement obligations the Commission proposed that jurisdictional entities establish in their accounts all of the amounts that would have been recorded therein had these new requirements always been in effect. The NOPR referred to the accounting entries required to implement this part of the proposal as "transition adjustments." In certain instances, the transition adjustments could result in a charge or credit to net income. This charge or credit is referred to as the "cumulative effect adjustment" because it represents the cumulative difference between all amounts charged to net income for asset retirement obligations in past periods under the prior accounting method and what would have been charged to net income in those periods had these new accounting requirements set forth in the NOPR always been in effect. For rate regulated entities the cumulative effect adjustment amounts will be recognized as a regulatory asset or liability if the requirements of Commission Order No. 552 are met.¹²

¹²See Order No. 552, *supra* note 9, for guidance on the recognition of regulatory assets and regulatory liabilities when certain conditions are met.

16. The Commission proposed to record the cumulative effect adjustment in two separate amounts. The first portion of the cumulative effect adjustment assumes that all amounts included in the accumulated depreciation accounts for previously recognized legal retirement obligations will be considered depreciation of the asset retirement costs capitalized under the proposed rule. The difference between the amount included in the accumulated depreciation for previously recognized legal retirement obligations and the accumulated depreciation on the capitalized asset retirement costs recognized under the new accounting requirements will be charged or credited, as appropriate, to net income or recognized as a regulatory asset or liability if the requirements of Order No. 552 are met. The second portion of the cumulative effect adjustment assumes that all amounts related to the accretion of the liability for the asset retirement obligation under the new requirements would be charged to net income or recognized as a regulatory asset if the requirements of Order No. 552 are met.

Comments Received:

17. Two commenters assert that the NOPR was unclear as to the initial implementation details of the proposed accounting rules and seek clarification of this matter in the final rule.¹³ The commenters request the Commission to clarify the components included in the cumulative effect adjustment. FirstEnergy asserts that the components of the cumulative effect adjustment may consist of the net of the cumulative

¹³See FirstEnergy at p. 2 and Progress Energy at p. 2.

accretion on the asset retirement obligation, the accumulated depreciation on the related capitalized asset retirement cost, and the reversal of any previously accrued legal retirement obligation.

18. FirstEnergy notes that the NOPR only addresses amounts included in accumulated depreciation for accruals of previously recognized legal retirement obligations of long-lived assets. The commenter submits that the Commission has permitted amounts related to legal liabilities associated with the retirement of assets to be recorded in a deferred credit or liability account rather than in accumulated depreciation. The commenter asserts further that accruals of previously recognized legal retirement obligations that were recorded in a deferred credit or in a liability account should be included in the computation of the cumulative effect adjustment in the final rule.

Commission Response:

19. The proposal to establish the cumulative effect adjustment was intended to simplify implementation of the accounting for asset retirement obligations. However, based on the comments received the Commission recognizes that the implementation proposal may have been confusing because the steps were somewhat different than the ones contained in FAS 143. However, the Commission notes that the cumulative effect determination under FAS 143 and this final rule will result in the use of the same components and produce the same cumulative effect adjustment amount.

20. The Commission finds that since both approaches produce the same cumulative effect adjustment for asset retirement obligations, jurisdictional entities may recognize the initial application of the new accounting rules for the cumulative effect adjustment as the difference between the amounts of previously accrued accumulated legal obligations associated with the retirement of the asset recognized in the balance sheet prior to adopting the new accounting requirements and the amount that will be recognized on the balance sheet under the new accounting requirements. The Commission also finds that in order to properly determine the proper cumulative effect adjustment, jurisdictional entities must include the amounts of previously accrued accumulated legal obligations associated with the retirement of assets recorded in other deferred credits accounts or other liability accounts in the computation of the cumulative effect adjustment.

B. Recognition of Regulatory Assets and Liabilities

21. The Commission proposed that public utilities, licensees and natural gas companies recognize regulatory assets and liabilities related to asset retirement obligations if the accounting requirements under Order No. 552 are met.¹⁴

Comments Received:

22. Several commenters request that the Commission clarify in the final rule the accounting for the recognition of regulatory assets and liabilities for the effects on

¹⁴See Order No. 552, *supra* note 9, for guidance on the recognition of regulatory assets and regulatory liabilities when certain conditions are met.

financial operations related to the initial implementation and the period-to-period accounting for any difference between amounts charged to net income for expenses related to asset retirement obligations and the amounts recovered in rates for asset retirement obligation costs.¹⁵ The commenters assert that the proposed accounting for the recognition of the debit cumulative effect adjustment in account 182.3, Other regulatory assets, as a regulatory asset is not consistent with the accounting for the recognition of the credit cumulative effect adjustment as a regulatory liability in account 254, Other regulatory liabilities.¹⁶ The commenters suggest that inconsistency arises because the Commission required that a credit cumulative effect adjustment must be recorded as a regulatory liability in account 254, Other regulatory liabilities, while a debit cumulative effect adjustment must be charged to net income in account 435, Extraordinary deductions, or recorded as a regulatory asset in account 182.3, Other regulatory assets, for part or all of the cumulative effect adjustment if the requirements of Order No. 552 are met. One commenter suggests that the Commission should provide for the recording of regulatory assets for debit cumulative effect adjustments as being probable of recovery as a general rule consistent with the Commission's proposed treatment of recording credit cumulative effect adjustments as regulatory liabilities.

¹⁵See Deloitte & Touche at p. 1, EEI at pp. 3-4, Progress Energy at p. 2, and RUS at p. 3.

¹⁶See Deloitte & Touche at p. 1, EEI at pp. 3-4, Progress Energy at p. 2, and RUS at p. 3.

23. Additionally, one commenter recommends that the Commission incorporate the accounting for the recognition of regulatory assets and liabilities for the initial adoption and the period-to-period accounting for asset retirement obligations in the requirements of the Uniform Systems of Accounts under Parts 101 and 201¹⁷

Commission Response:

24. The Commission declines to adopt the commenter's recommendation to amend the Uniform System of Accounts under Part 101 and Part 201 of the Commission regulations to include specific accounting instructions for the recognition of regulatory assets and liabilities for the initial adoption and the period-to-period accounting for asset retirement obligations. The accounting instruction for regulatory assets and liabilities as prescribed in the Uniform Systems of Accounts in Part 101 and Part 201 adequately addresses the requirements for regulatory assets or liabilities related to differences in the timing of recognition of asset retirement obligation expenses for financial accounting purposes and their recovery in rates.

25. The Commission established the accounting requirements for recording regulatory assets and liabilities as set forth in the Uniform Systems of Accounts in Part 101 and Part 201 pursuant to Commission Order No. 552.¹⁸ Under these requirements regulatory assets and liabilities are defined as assets and liabilities that result from ratemaking

¹⁷See EEI at p. 6.

¹⁸See Order No. 552, supra note 9, for guidance on the recognition of regulatory assets and regulatory liabilities when certain conditions are met.

actions of regulators.¹⁹ Regulatory assets and liabilities generally arise from specific revenues, expenses, gains, or losses that would have been included in net income determinations in one period under the general requirements of the Uniform System of Accounts but for it being probable they will be included in a different period(s) for purposes of developing the rates the utility is authorized to charge for its utility services or in the case of regulatory liabilities, for refunds to customers, not provided for in other accounts, that will be required.²⁰ The term "probable," as used in Order No. 552 for the definition of regulatory assets or regulatory liabilities, refers to that which can be reasonably be expected or believed on the basis of available evidence or logic but is neither certain nor proved.²¹

26. Jurisdictional entities will initially recognize a cumulative effect adjustment and thereafter record the depreciation of the asset retirement costs in account 403.1, Depreciation expense for asset retirement costs, and the accretion of the liability for the asset retirement obligations in account 411.10, Accretion expense. The amounts for

¹⁹See paragraph A of account 182.3, Other regulatory assets, and paragraph A of account 254, Other regulatory liabilities, in 18 CFR Part 101 (Public Utilities and Licensees), and paragraph A of account 182.3, Other regulatory assets, and paragraph A of account 254, Other regulatory liabilities, in 18 CFR Part 201 (Natural Gas Companies).

²⁰See Definition 30 in 18 CFR Part 101 (Public Utilities and Licensees), and Definition 30 in 18 CFR Part 201 (Natural Gas Companies).

²¹See FERC Stats. & Regs., Regulations Preambles January 1991-June 1996 ¶ 30,967 at 30,826 (1993).

depreciation and accretion expense that will be recognized under the general requirements of the Uniform Systems of Accounts and the amount of asset retirement obligation costs included in cost of service for ratemaking purposes may be different. Recognition of such differences as regulatory assets and liabilities may be appropriate in some instances, but not in others. This determination however cannot be made in a generic accounting rulemaking proceeding. It must instead be made by each individual entity taking into consideration the jurisdictional entity's rate setting bodies, the specific agreements entered into between the jurisdictional entity and certain customers regarding the manner in which costs will be allocated among the parties or other relevant evidence. Therefore, if the requirements of Order No. 552 are met, a jurisdictional entity must recognize regulatory assets and liabilities for the cumulative effect adjustment and any differences between the recognition of asset retirement obligation expenses for financial accounting purposes and their recovery in rates.

C. Authority to Adjust Accumulated Depreciation (Accounts 108 and 110)

27. The Commission proposed granting public utilities, licensees and natural gas companies the requisite authority to remove any excess amounts²² from accounts 108 and

²²This excess amount results when the amount of accumulated depreciation recognized for prior accrued legal retirement obligations is greater than the accumulated depreciation recognized on the capitalized asset retirement costs under the new requirements.

110 provided that the amounts were transferred to account 254, Other regulatory liabilities.²³

Comments Received:

28. Certain commenters request that the Commission clarify the authority granted to jurisdictional entities to adjust the balances in accounts 108 and 110 for existing long-lived assets with legal retirement obligations.²⁴ However, one commenter requests that the Commission provide explicit authority to remove all of the previously accrued amounts for legal obligations to retire or dispose of the long-lived assets recorded in accounts 108 and 110. Another commenter requests the Commission allow transferring from accounts 108 and 110 to the new proposed account 230, Asset retirement obligations, any remaining amounts for previously accrued legal obligations to retire or dispose of the long-lived assets.

29. Another commenter agrees with the Commission's pregranting authority to public utilities, licensees and natural gas companies for the removal of amounts from accumulated depreciation accounts associated with asset retirement obligations.

However, the commenter asserts that the Commission should still require public utilities, licensees and natural gas companies to notify the Commission by submitting a

²³See paragraph E to account 108, Accumulated provision for depreciation of electric utility plant (Major only), and paragraph E to account 110, Accumulated provision for depreciation and amortization of electric utility plant (Nonmajor only), in 18 CFR Part 101 (Public Utilities and Licensees).

²⁴See EEI at pp. 2-3 and Progress Energy at p. 2.

description and journal entries related to such adjustments to the Commission for amounts transferred from accounts 108 and 110 to account 254, Other regulatory liabilities, related to any existing asset with a legal retirement obligation.²⁵

Commission Response:

30. After considering the comments, the Commission will grant jurisdictional entities the authority to adjust accounts 108, 110 and 253 to properly recognize and record the liabilities for legal retirement obligations for existing assets, the asset retirement costs and related accumulated depreciation on the capitalized costs when the amounts that would otherwise be included in net income determinations meet the criteria for recognition as regulatory asset or liability.

31. The Commission notes that there may be instances where adjustments to accounts 108, 110 and 253 may be required as a result of this final rule but the criteria for the recognition of a regulatory asset or liability for the net income effect is not met. While we permit jurisdictional entities to make such adjustments our actions here should not be construed as approval.²⁶ Therefore, the Commission will require that jurisdictional entities to file with the Commission their journal entries along with supporting information to record any adjustment that affects net income within 60 days of the

²⁵See MoPSC at p. 6.

²⁶The income accounts used to record the cumulative effect adjustments are account 434, Extraordinary income, and account 435, Extraordinary deductions.

effective date of this final rule. The filing must include a description and explanation of the full particulars for including the amounts in net income.

32. The filing must also include a statement by the public utility, licensee or natural gas company of the facts and circumstances and the explicit determinations made by the jurisdictional entity demonstrating that the amounts credited to net income are not required to be refunded to customers or required to be recorded as a regulatory liability and must be credited to net income and not included in account 254, Other regulatory liabilities.

D. Accounting for Cost of Removal That Does Not Constitute a Legal Obligation

33. The Commission did not propose to change its accounting under Parts 101, 201 and 352 for the cost of removal for amounts that result from other than asset retirement obligations.

Comments Received:

34. Several commenters request that the Commission specify in the final rule that any cost of removal for non-legal retirement obligations remain in accumulated depreciation.²⁷ Certain other commenters suggest that the Commission should make certain modifications to the Uniforms Systems of Accounts under Part 101 and Part 201 to include the amount of cost of removal for non-legal obligations as regulatory liabilities

²⁷See EEI at p. 3 and Southern at p. 2.

in account 254, Other regulatory liabilities, instead of accumulated depreciation for public utilities, licensees and natural gas companies.²⁸

35. One commenter recommends that the Commission exclude the cost of removal that does not qualify as a legal retirement obligation from the depreciation accrual and instead capitalize any removal costs related to the asset replaced as part of the costs of replacing the utility plant and if no replacement of the asset occurs, the cost of removal for non-legal retirement obligations should be expensed in the income statement.²⁹

Commission Response:

36. As proposed in the NOPR, the rule applies to legal obligations associated with the retirement of tangible long-lived assets. Under the existing requirements of the Uniform Systems of Accounts removal costs that are not asset retirement obligations are included as a component of the depreciation expense and recorded in accumulated depreciation.³⁰

The Commission notes that certain jurisdictional entities may have been receiving specific allowances for cost of removal for non-legal retirement obligations as a specific component in their rates approved by their regulators. The Commission did not propose any changes to its existing accounting requirements for cost of removal for non-legal

²⁸See Deloitte & Touche at p. 2 and NASUCA at pp. 2-3.

²⁹See NASUCA at pp. 15-17.

³⁰See Definition 10 in 18 CFR Part 101 (Public Utilities and Licensees), Definition 10 in 18 CFR Part 201 (Natural Gas Companies), and Definition 12 in 18 CFR Part 352 (Oil Pipeline Companies).

retirement obligations. Accordingly, jurisdictional entities are accounting for such costs consistent with the requirements of the Uniform Systems of Accounts under Part 101 for public utilities and licensees, Part 201 for natural gas companies and Part 352 for oil pipeline companies.

37. The purpose of this rule is to establish uniform accounting requirements for the recognition of liabilities for legal obligations associated with the retirement of tangible long-lived assets. The accounting for removal costs that do not qualify as legal retirement obligations falls outside the scope of this rule. The Commission is aware that there is an ongoing discussion in the accounting community as to whether the cost of removal should be considered as a component of depreciation. However, this issue is beyond the scope of this rule and we are not convinced that there is a need to fundamentally change accounting concepts at this time.

38. Instead we will require jurisdictional entities to maintain separate subsidiary records for cost of removal for non-legal retirement obligations that are included as specific identifiable allowances recorded in accumulated depreciation in order to separately identify such information to facilitate external reporting and for regulatory analysis, and rate setting purposes. Therefore, the Commission is amending the instructions of accounts 108 and 110 in Parts 101, 201 and account 31, Accrued depreciation – Carrier property, in Part 352 to require jurisdictional entities to maintain separate subsidiary records for the purpose of identifying the amount of specific

allowances collected in rates for non-legal retirement obligations included in the depreciation accruals.

39. Jurisdictional entities must identify and quantify in separate subsidiary records the amounts, if any, of previous and current accrued accumulated removal costs for other than legal retirement obligations recorded as part of the depreciation accrual in accounts 108 and 110 for public utilities and licensees, account 108 for natural gas companies, and account 31 for oil pipeline companies. If jurisdictional entities do not have the required records to separately identify such prior accruals for specific identifiable allowances collected in rates for non-legal asset retirement obligations recorded in accumulated depreciation, the Commission will require that the jurisdictional entities separately identify and quantify prospectively the amount of current accruals for specific allowances collected in rates for non-legal retirement obligations.

E. Accounts Established for Recording Accretion of Asset Retirement Obligations and Depreciation of Asset Retirement Costs

40. The Commission proposed to add a new income statement account entitled account 411.10, Accretion expense, in the Uniform Systems of Accounts in Part 101 and Part 201 to record the accretion of the liability for the asset retirement obligation. The Commission also proposed to add a new income statement account entitled account 403.1, Depreciation expense for asset retirement costs, in Part 101 and Part 201 to identify the depreciation expense recorded for capitalized asset retirement costs.

Comments Received:

41. Certain commenters recommend that the Commission's proposed new account 411.10, Accretion expense, should be renumbered as either account 411.11 or an account number within the range of account 405, Amortization of other electric plant, through account 407, Amortization of property losses, unrecovered plant and regulatory study costs, which relate to the amortization of utility plant.

42. Two commenters suggest that the Commission renumber its proposed new account 403.1 because it is already being used in the Rural Utilities Service's (RUS) Uniform System of Accounts.³¹ The commenters suggest that the Commission use account 403.9 to accommodate the Uniform System of Accounts of RUS for its electric cooperatives.³²

Commission Response:

43. The Commission will not renumber the chart of accounts. The accounting structure of the Uniform Systems of Accounts in Part 101 and Part 201 is designed to meet the accounting and reporting needs of this Commission. Users are permitted to adapt the Commission's Uniforms Systems of Accounts for their own needs by allowing them to create new accounts and subaccounts. Such company generated accounts

³¹See RUS at p. 2 and NRECA at p. 6.

³²See Rural Utilities Service of the United States Department of Agriculture (RUS) Uniform System of Accounts, 7 CFR Part 1767, Accounting Requirements for RUS Electric Borrowers.

however, must be reconciled if and when the Commission subsequently determines to use that account number for its regulatory purposes. Therefore, jurisdictional entities must reconcile their account numbers accordingly, to the account numbers established by this rule.³³

F. Accounts for Recording Asset Retirement Costs

44. The Commission proposed to add new primary plant accounts within each plant function to record the asset retirement costs.

Comments Received:

45. Certain commenters object to the Commission's proposed new primary plant accounts within account 101 in Part 101 and Part 201³⁴ One commenter suggests the Commission create a new separate asset group called "Asset Retirement Costs" that separately identifies asset retirement costs in financial statements and would facilitate the exclusion of the asset retirement costs from the rate base in a rate change filing.

46. Another commenter suggests that capitalizing asset retirement costs in the new primary plant accounts could result in increasing personal property taxes for three of its utility operating companies that operate in one state. The commenter recommends that the asset retirement costs should be recorded as an intangible cost within account 101 under Part 101 and Part 201 in primary plant account 303, Miscellaneous intangible

³³See General Instruction 3.C, Account Numbering System, in 18 CFR Part 101 (Public Utilities and Licensees) and 18 CFR Part 201 (Natural Gas Companies).

³⁴See FirstEnergy at p. 1, MoPSC at pp. 4-5 and RUS at p. 2.

plant. As an alternative, the commenter also recommends that the Commission include the word "intangible" in the account instructions of the new asset retirement cost primary plant accounts proposed by the Commission.

47. One commenter suggests that the Commission's proposed new primary plant accounts entitled account 359.1, Asset retirement costs for transmission plant, and account 399.1, Asset retirement costs for general plant, should be renumbered to avoid leading users to expect these are subaccounts of account 359, Roads and trails, under the transmission plant function and 399, Other intangible plant, under the general plant function in Part 101.³⁵ The commenter suggests that the Commission use account 351 which is currently a reserved account in the list of accounts for the transmission plant function. The commenter also suggests that the Commission use account 388 which is currently not an account used in the list of accounts for the general plant function.

Commission Response:

48. The Commission finds that these recommendations are not consistent with the view that asset retirement costs are considered an integral part of the costs of the particular asset that gives rise to the asset retirement obligations, rather than separate and distinct assets.

49. The Commission notes that commenters' suggestions will not result in properly classifying asset retirement costs within the utility plant function associated with the

³⁵See RUS at p. 2.

actual plant assets that give rise to the legal retirement obligations. This result would be at odds with one of the objectives of the final rule, which is to provide proper accounting for legal obligations associated with the retirement costs.

G. Accounting for Gains and Losses for the Settlement of Asset

Retirement Obligations Related to Electric and Gas Utility Plant

50. The Commission proposed to record gains or losses resulting from the settlement of asset retirement obligations for electric and gas utility plant in account 411.6, Gains from disposition of utility plant, and the account 411.7, Losses from disposition of utility plant, respectively.

Comments Received:

51. Many of the commenters did not object the Commission's proposed treatment for gains and losses resulting from the settlement of asset retirement obligations for electric and gas utility plant.³⁶ Two commenters believe that the Commission's proposed treatment is inappropriate in the situation in which a jurisdictional entity has recorded, at the date of adoption of the final rule, a regulatory asset or liability for the full difference (including third party risk factor) between the asset retirement obligation determined for accounting purposes and the asset retirement obligation allowed for ratemaking purposes.³⁷ In this situation the commenters assert it is appropriate to offset any

³⁶See EEI at p. 6 and Southern at p. 2.

³⁷See FAS 143, paragraph A20, for a discussion of third party risk.

remaining regulatory asset or liability balance associated with the specific asset retirement obligation against the remaining asset retirement obligation liability balance before recording a gain or loss.

Commission Response:

52. The Commission notes that the offsetting of any remaining regulatory asset or liability balance associated with the specific asset retirement obligation against the remaining associated asset retirement obligation liability balance before recording a gain or loss on the settlement is not appropriate because each of these transactions is a separate and distinct accounting transaction, and accordingly, should be accounted for as such. Therefore, the Commission will adopt the accounting as provided for in the NOPR.

H. Accounting for Gains and Losses for the Settlement of Asset Retirement Obligations Related to Nonutility Plant

53. The Commission proposed that any gains or losses relating to the settlement of asset retirement obligations for nonutility plant must be recorded directly in account 421, Miscellaneous nonoperating income, and account 426.5, Other deductions, respectively. The Commission also proposed to revise the text of accounts 421 and 426.5 in Part 101 and Part 201 of the Commission's regulations.

Comments Received:

54. One commenter suggests that, although the use of these accounts are not necessarily objectionable, it would be more appropriate to record a gain or loss resulting from the settlement of asset retirement obligations for nonutility plant directly in account 421.1, Gain on disposition of property, or account 421.2, Loss on disposition of property, respectively.³⁸

Commission Response:

55. The instructions to Accounts 421.1 and 421.2 provide for gains or losses on the sale, conveyance, exchange, or transfer of utility or other property to another.³⁹ The settlement of an asset retirement obligation related to nonutility property does not result in the sale, conveyance, exchange, or transfer of such property to another party. Therefore, the Commission is of the view that the accounting for gains or losses resulting from the settlement of asset retirement obligations for nonutility property should be accounted for in accounts 421 and 426.5 as provided for in the NOPR.

I. Other Accounting Matters

56. Certain commenters raised concerns or seek Commission guidance concerning the use of group depreciation for asset retirement obligations, and on how a jurisdictional

³⁸See EEI at p. 6.

³⁹See account 421.1, Gain on disposition of property, or account 421.2, Loss on disposition of property, in 18 CFR Part 101 (Public Utilities and Licensees) and 18 CFR Part 201 (Natural Gas Companies).

entity should estimate a credit-adjusted risk-free rate where an entity has not found a need to obtain a credit rating.⁴⁰

57. The Commission will not make policy calls in this final rule concerning the above matters. These matters are better resolved on a case-by-case basis based on the facts and circumstances of each jurisdictional entity. Additionally, jurisdictional entities may seek clarification from the Commission's Chief Accountant concerning the proper application or implementation of any accounting standard under the Commission's regulations.⁴¹

58. Finally, one commenter suggests that the NOPR does not address the current accounting for realized earnings from trust funds that have been established for the purpose of ultimately discharging the liability for asset retirement obligations.⁴² The commenter notes that jurisdictional entities currently account for realized earnings on trust funds by crediting account 419, Interest and dividend income. The commenter recommends that the realized earnings on trust funds should be recorded to an appropriate above-the-line account.

59. The Commission notes that under certain circumstances jurisdictional entities have placed in a special fund amounts deposited with a trustee for future activities such

⁴⁰See Ferguson at p. 5 and NRECA at p. 6.

⁴¹See General Instruction 5, Submittal of Questions, in 18 CFR Part 101 (Public Utilities and Licensees), General Instruction 5, Submittal of Questions, in 18 CFR Part 201 (Natural Gas Companies), and General Instruction 1-11, Interpretation of rules, in 18 CFR Part 352 (Oil Pipeline Companies).

⁴²See EEI at p. 5.

as the decommissioning of a nuclear plant. Amounts placed in a special fund for this type of activity are recorded in account 128, Other special funds. Additionally, under the requirements of the Uniform Systems of Accounts, interest revenues on securities, special deposits, and all other interest bearing assets included in other special fund accounts are recorded in Account 419, Interest and dividend income. Realized earnings on trust funds are nonoperating in nature and are properly included in account 419. Therefore, the Commission declines to amend the Uniform Systems of Accounts.

J. Tariff Filing Requirements

**1. Tariff Filing Requirements Under 18 CFR Part 35 and
18 CFR Part 154**

60. In the NOPR, the Commission stated that the proposed rule will require public utilities, licensees or natural gas companies for accounting purposes to recognize asset retirement obligations. The Commission is not requiring jurisdictional entities with stated rate tariffs to make any tariff filings with the Commission due to this final rule at this time. However, public utilities, licensees and natural gas companies with formula rate tariffs must not include any cost components related to asset retirement obligations in their formula rate billing tariffs for automatic recovery in their billing determinations without obtaining Commission approval.

61. Various commenters have expressed support and concerns or asked for Commission decisions with respect to issues concerning the possible rate impact of the

proposed rule. Two commenters state their support for the Commission's proposed rate treatment of asset retirement obligations.⁴³ Other commenters raised concerns or seek Commission policy calls concerning regulatory certainty for disposition of transition costs, external funds for amounts collected in rates for asset retirement obligations, adjustments to book depreciation rates for companies collecting cost of removal through current depreciation rates, the exclusion of accumulated depreciation and accretion for asset retirement obligations from rate base, recognizing previously established negative salvage allowances whether or not these retirement costs are recognized as asset retirement obligations, and the requirement of a detailed study in support of tariff filings reflecting asset retirement obligations.⁴⁴

62. The Commission finds that the issue of whether, and to what extent, a particular asset retirement cost must be recovered through jurisdictional rates should be addressed on a case-by-case basis in the individual rate change filed by public utilities, licensees, and natural gas companies. To ensure that all rate base amounts related to asset retirement obligations can be identified and excluded from the rate base calculation in a rate change filing, the Commission adds § § 35.18 and 154.315 to its rate change filing requirements. These new regulations require that public utilities, licensees, and natural gas companies who have recorded an asset retirement obligation on their books in

⁴³See MoPSC at p. 4 and NRECA at p. 7.

⁴⁴See Northern Natural at pp. 1-2, MoPSC at p. 5, Deloitte & Touche at pp. 1-2, EEI at p. 9, Southern at pp. 2-3, and Ferguson at pp. 5 and 8.

accordance with this rule must, as part of any initial rate filing or general rate change filing, provide a schedule identifying all cost components related to the asset retirement obligation that are included in the book balances of all accounts reflected in the cost of service computation supporting the proposed rates. In addition, the regulations require that all asset retirement obligations related rate base items be removed from the rate base computation through an adjustment. If the public utility, licensee or natural gas company is seeking recovery of an asset retirement obligation in rates, it must also provide a detailed study supporting the amounts proposed to be collected in rates. If the public utility, licensee or natural gas company is not seeking recovery of the asset retirement obligation in rates, then it must remove all asset retirement obligation related cost components from its cost of service.

63. For natural gas companies currently collecting a negative salvage allowance in jurisdictional rates, negative salvage allowances that are not established due to an asset retirement obligation must be identified for rate making purposes separately from asset retirement obligation allowances. The current rate change filing requirement for natural gas companies at §154.312(d), Statement D, requires that any authorized negative salvage must be maintained in a separate subaccount of account 108, Accumulated provision for depreciation of gas utility plant. The Commission is amending this section to ensure that this subaccount does not include any amounts related to asset retirement obligations.

64. The Commission will decline to make policy calls concerning regulatory certainty for disposition of transition costs, external funds for amounts collected in rates for asset retirement obligations, adjustments to book depreciation rates, and the exclusion of accumulated depreciation and accretion for asset retirement obligations from rate base; these are matters that are not subject to a one size fits all approach and are better resolved on a case-by-case basis in rate proceedings. The Commission is of the view that utilities will have the opportunity to seek recovery of qualified costs for asset retirement obligations in individual rate proceedings. This rule should not be construed as pregranted authority for rate recovery in a rate proceeding.

65. Finally this rule requires nothing new and nothing more with respect to the requirement for a detailed study. Complex depreciation and negative salvage studies are routinely filed or otherwise made available for review in rate proceedings. When utilities perform depreciation studies, a certain amount of detail is expected. It is incumbent upon the utility to provide sufficient detail to support depreciation rates, cost of removal, and salvage estimates included in rates.⁴⁵ To the extent a utility believes materials are entitled to be non-public, protective orders are available to preserve confidentiality.

⁴⁵When an electric utility files for a change in its jurisdictional rates, the Commission requires detailed studies in support of changes in annual depreciation rates if they are different from those supporting the utility's prior approved jurisdictional rate. (18 CFR § 35.13(10)(iv)).

2. Tariff Filing Requirements Under 18 CFR Part 346

66. No comments were received objecting to the Commission's proposal to add a new § 346.3 to cost-of-service filing requirements for oil pipelines. Therefore, the Commission is implementing the provisions as noticed in the NOPR.

K. Implementation for Accounting and Reporting Purposes

67. The Commission proposed to implement the rule January 1, 2003, for accounting and reporting purposes for public utilities, licensees, natural gas companies and oil pipeline companies. This is the date jurisdictional entities that file FERC Forms 1, 1-F, 2, 2-A and 6, will measure the transition amounts for the asset retirement obligations.⁴⁶ The Commission also proposed that the reporting will be implemented for the FERC Forms 1, 1-F, 2, 2-A and 6 for the reporting year 2003.⁴⁷

Comments Received:

68. The majority of the commenters did not object to the Commission's proposed implementation date of January 1, 2003, for accounting and reporting purposes for public utilities, licensees, natural gas companies and oil pipeline companies. Two commenters

⁴⁶On February 20, 2002, the Commission's Chief Accountant issued interim guidance stating that jurisdictional entities may not adopt FAS 143 for financial accounting and reporting to the Commission before Commission action on this matter. See *All Jurisdictional Public Utilities, Licensees, Natural Gas Companies, and Oil Pipeline Companies*, 98 FERC ¶ 62,222 (2002).

⁴⁷The FERC Forms 1-F and 2-A and 6 annual reports for the year 2003 are due on or before March 31, 2004. The FERC Forms 1 and 2 annual reports for the year 2003 are due on or before April 30, 2004.

assert that their fiscal year begins on April 1, 2003, rather than January 1, 2003. The commenters request the Commission clarify this requirement given that their fiscal year does not coincide with the calendar year, which they use for FERC reporting purposes. Both commenters request that the Commission consider allowing them to implement the proposed rule for accounting and reporting purposes on April 1, 2003, rather than the earlier date of January 1, 2003. The commenters assert that this would avoid the issue of retroactively applying the accounting rule to fiscal years prior to January 1, 2003.

69. One commenter recommends that the Commission allow jurisdictional entities to determine the differential in amounts between the two implementation dates, January 1, 2003 and the start of their fiscal year for FERC reporting purposes and footnote the difference in their FERC Annual Report.

Commission Response:

70. The Commission is adopting the provisions in the NOPR for implementing the final rule for accounting and reporting purposes on January 1, 2003, except as clarified below for jurisdictional entities whose fiscal year begins after January 1, 2003. Upon considering the comments on this issue, the Commission will permit a jurisdictional entity for whose fiscal year begins after January 1, 2003, to apply the final rule on the first day of their fiscal year rather than on January 1, 2003 for accounting purposes and reporting in the FERC Forms 1, 1-F, 2, 2-A and 6 for the reporting year 2003. In adopting this provision, the Commission will require jurisdictional entities to determine

the differential in amounts between the two implementation dates, January 1, 2003 and the jurisdictional entity's first day of their fiscal year of the adoption of the final rule in calendar year 2003 for accounting and FERC reporting purposes and footnote the difference in the FERC Annual Report for the reporting year 2003. Jurisdictional entities with fiscal years will continue to report to the Commission in FERC Annual Reports on a calendar year basis.

IV. FERC ANNUAL REPORT FORMS

71. The Commission proposed changes revising the existing schedules in the FERC Forms 1, 1-F, 2, 2-A, and 6 filed with the Commission. A table summarizing the changes to the various schedules is shown in Appendix B. The Commission also proposed that jurisdictional entities include certain disclosure for asset retirement obligations in the "Notes to Financial Statements" in the FERC Forms 1, 1-F, 2, 2-A and 6.⁴⁸

72. No commenters object to the Commission's proposed revisions to the existing schedules in the FERC Annual Report and the proposed disclosure for asset retirement obligations in the "Notes to Financial Statements" in FERC Annual Reports. Therefore, the Commission will adopt the provisions as noticed.

V. REGULATORY FLEXIBILITY ACT CERTIFICATION

⁴⁸See the instructions to the Notes to Financial Statements schedule for FERC Forms 1, 1-F, 2, 2-A and 6 that requires respondents to report important notes and information related to the financial statements.

73. The Regulatory Flexibility Act (RFA) requires agencies to prepare certain statements, descriptions, and analyses of rules that will have a significant economic impact on a substantial number of small entities.⁴⁹ The Commission is not required to make such analyses if a rule would not have such an effect.

74. The Commission does not believe that this rule will have such an impact on small entities. Most filing companies regulated by the Commission do not fall within the RFA's definition of a small entity.⁵⁰ Further, the Commission concludes that this reporting would not be a significant burden because the information jurisdictional entities will be required to report to the Commission specifically focuses on the activities of the jurisdictional entities that will be captured in their accounting systems and generally be reported to their shareholders and others at a company, or at a consolidated business level. Therefore, the Commission certifies that this rule will not have a significant economic impact on a substantial number of small entities.

75. However, if the reporting requirements represent an undue burden on small businesses, the entity affected may seek a waiver of the disclosure requirements from the Commission.

VI. ENVIRONMENTAL IMPACT STATEMENT

⁴⁹5 U.S.C. 601-612.

⁵⁰5 U.S.C. 601(3), citing to section 3 of the Small Business Act, 15 U.S.C. 632. Section 3 of the Small Business Act defines a "small-business concern" as a business which is independently owned and operated and which is not dominant in its field of operation.

76. Commission regulations require that an environmental assessment or an environmental impact statement be prepared for any Commission action that may have a significant adverse effect on the human environment.⁵¹ No environmental consideration is necessary for the promulgation of a rule that is clarifying, corrective, or procedural or does not substantially change the effect of legislation or regulation being amended,⁵² and also for information gathering, analysis, and dissemination.⁵³ The rule updates the Parts 35, 101, 154, 201, 346 and 352 of the Commission's regulations, and does not substantially change the effect of the underlying legislation or the regulations being revised or eliminated. In addition, the final rule involves information gathering, analysis and dissemination. Therefore, this final rule falls within categorical exemptions provided in the Commission's regulations. Consequently, neither an environmental impact statement nor an environmental assessment is required.

VII. INFORMATION COLLECTION STATEMENT

77. The Office of Management and Budget's (OMB) regulations in 5 CFR 1320.11 require that it approve certain reporting and recordkeeping requirements (collections of information) imposed by an agency. Upon approval of a collection of information, OMB will assign an OMB control number and an expiration date. Respondents subject to the

⁵¹Regulations Implementing National Environmental Policy Act, 52 FR 47897 (Dec. 17, 1987), FERC Stats. & Regs. ¶ 30,783 (1987).

⁵²18 CFR 380.4(a)(2)(ii).

⁵³18 CFR 380.4(a)(5).

filing requirements of this Rule will not be penalized for failing to respond to these collections of information unless the collections of information display a valid OMB control number.

78. The final rule will affect the following current data collections: FERC Form(s) 1, 1-F, 2, 2-A and 6, FERC-516 and FERC-545. In accordance with Section 3507(d) of the Paperwork Reduction Act of 1995,⁵⁴ the data requirements in the subject rule have been submitted to OMB for review.

Public Reporting Burden: The Commission provided burden estimates in order to implement the proposed requirements. Of the 16 commenters who responded to the NOPR, only one made specific comment concerning the Commission's burden estimates. This one commenter has misconstrued the intent of the rule to impose more-time consuming requirements (e.g., group depreciation method) than the final rule actually imposes. The Commission's responses to these comments are being addressed elsewhere in the final rule. The proposed requirements coincide with procedures already established by FAS 143 for companies to recognize a liability at fair value on their financial statements for a retirement obligation when it has occurred. The Commission is merely adjusting these industry standards to coordinate with its Uniform Systems of Accounts.

⁵⁴44 U.S.C. 3507(d)

Data Collection	No. of Respondents	No. of Responses Per Respondent	Hours Per Response	Total Annual Hours
Form 1	216	216	17	3,672
Form 1-F	27	27	8	216
Form 2	57	57	13	741
Form 2-A	53	53	8	424
Form 6	159	159	10	1,590
Totals	512	512		6,643

The total annual hours for these collections is 6,643 hours.

Information Collection Costs: The Commission is projecting only the costs associated with implementing the requirements of this rule.

Annualized Capital/Startup Costs: 6,643 hours ÷ 2,080 hours X \$117,041 = \$373,800.

Annualized Costs (Operations & Maintenance) It should be noted that the burden and corresponding costs of this final rule are to be implemented by jurisdictional entities to comply with the Commission's Uniform System of Accounts. These entities must already maintain much of this information in order to implement generally accepted accounting principles. The burden and corresponding costs are to account for only where there are differences between the generally accepted accounting principles and the Uniform System of Accounts.

79. FERC Information Collections FERC-516 and FERC-545 are also referenced because jurisdictional entities will be required to provide supporting documentation for the amounts to be collected in their rates when an asset retirement obligation has been recorded. This documentation is no different that jurisdictional entities already prepare in their detailed studies as currently required by the Commission to support changes in annual depreciation rates. The Commission is not requiring additional information as jurisdictional entities already prepare this information when quantifying studies and analyses on the cost of removal of an asset retirement obligation. Therefore, the Commission does anticipate that additional burden will be imposed under these two information collections.

80. The Commission has assured itself, by means of internal review, that there is specific, objective support for the burden estimates associated with the information requirements.

Title: FERC Form 1 "Annual Report of Major Electric Utilities, Licensees and Others";

FERC Form 1-F "Annual Report of Nonmajor Public Utilities and Licensees";

FERC Form 2 "Annual Report of Major Natural Gas Companies";

FERC Form 2-A "Annual Report of Nonmajor Natural Gas Companies";

FERC Form 6 "Annual Report of Oil Pipeline Companies."

FERC-516 "Electric Rate Schedule Filings"

FERC-545 "Gas Pipeline Rates: Rate Change"

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Action: Proposed data collections.

OMB Control Nos.: 1902-0021; 1902-0029; 1902-0028; 1902-0030; 1902-0022, 1902-0016 and 1902-0154.

Respondents: Public Utilities; Natural Gas Companies; oil pipeline companies (Business or other for profit, including small businesses).

Frequency of the information: Annually.

Necessity of the Information: The final rule amends the Commission's regulations to revise Parts 35, 101,154, 201, 346 and 352 of its regulations. The final rule amends the Commission's Uniform System of Accounts to revise or create definitions, instructions, balance sheet and income statement accounts. The addition of new accounts and changes to FERC Forms will add visibility, completeness and consistency of the accounting and reporting of liabilities for asset retirement obligations and the related asset retirement costs capitalized. The implementation of these requirements will enable the Commission to carry out its responsibilities under the FPA, NGA and ICA to ensure the protection of ratepayers. The Commission is of the view that such requirements are needed because the disclosures of these lack uniformity. For example, jurisdictional entities subject to the Commission's requirements use different approaches for accounting for retirement costs. Public utilities perform depreciation studies to support changes in their rates for the decommissioning of a nuclear facility as periodic depreciation expense while oil pipeline companies have used depletion rates for

abandonment and removal of offshore facilities. The final rule will improve the consistency in the accounting and reporting of legal obligations to retire tangible long-lived assets by requiring entities to recognize at the onset the fair value of the liability. This information will provide a more transparent financial statement disclosure of the costs related to the legal obligation in the FERC Annual Reports.

81. Interested persons may obtain information on the reporting requirements by contacting the following: Federal Energy Regulatory Commission, 888 First Street, NE, Washington, D.C. 20426 [Attention: Michael Miller, Office of the Executive Director, ED-30, (202) 502-8415, or michael.miller@ferc.gov] or by sending comments on the collections of information to the Office of Management and Budget, Office of Information and Regulatory Affairs, Attention: Desk Officer for the Federal Energy Regulatory Commission, 725 17th Street, N.W., Washington, D.C. 20503. The Desk Officer can also be reached at (202)395-7856, or fax: (202) 395-7285.

VIII. DOCUMENT AVAILABILITY

82. In addition to publishing the full text of this document in the Federal Register, the Commission provides all interested persons an opportunity to view and/or print the contents of this document via the Internet through FERC's Home Page (<http://www.ferc.gov>) and in FERC's Public Reference Room during normal business hours (8:30 a.m., to 5:00 p.m. Eastern time) at 888 First Street, N.E., Room 2A, Washington, DC 20426.

83. From FERC's Home Page on the Internet, this information is available in the Federal Energy Regulatory Records Information System (FERRIS). The full text of this document is available on FERRIS in PDF and WordPerfect format for viewing, printing, and/or downloading. To access this document in FERRIS, type the docket number of this document, excluding the last three digits in the docket number field. User assistance is available for FERRIS and the FERC's Website during normal business hours from FERC Online Support at FERCOnlineSupport@FERC.gov or toll free at (866) 208-3676 or for TTY, contact (202) 502-8659.

IX. EFFECTIVE DATE AND CONGRESSIONAL NOTIFICATION

84. This Final Rule will take effect [insert date that is 30 days after date of publication in the **FEDERAL REGISTER**]. The Commission has determined, with the concurrence of the Administrator of the Office of Information and Regulatory Affairs of the Office of Management and Budget, that this rule is not a "major rule" within the meaning of Section 251 of the Small Business Regulatory Enforcement Fairness Act of 1996.⁵⁵ The Commission will submit the Final Rule to both houses of Congress and the General Accounting Office.⁵⁶

List of Subjects

18 CFR Part 35

⁵⁵5 U.S.C. 804(2).

⁵⁶5 U.S.C. 801(a)(1)(A).

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Electric power rates, Electric utilities, Electricity, Reporting and recordkeeping requirements.

18 CFR Part 101

Electric power, Electric utilities, Reporting and recordkeeping requirements, Uniform System of Accounts.

18 CFR Part 154

Alaska, Natural gas, Natural gas companies, Pipelines, Rate schedules and tariffs, Reporting and recordkeeping requirements.

18 CFR Part 201

Natural gas, Reporting and recordkeeping requirements, Uniform System of Accounts.

18 CFR Part 346

Pipelines, Reporting and recordkeeping requirements.

18 CFR Part 352

Pipelines, Reporting and recordkeeping requirements, Uniform System of Accounts.

By the Commission.

(S E A L)

Magalie R. Salas,
Secretary.

In consideration of the foregoing, the Commission amends parts 35, 101, 154, 201, 346 and 352, Chapter I, Title 18, Code of Federal Regulations, as follows.

REGULATORY TEXT

PART 35-FILING OF RATE SCHEDULES

1. The authority citation for part 35 continues to read as follows:

Authority: 16 U.S.C. 791a-825r, 2601-2645; 31 U.S.C. 9701; 42 U.S.C. 7101-7352.

2. Section 35.18 is added to read as follows:

§ 35.18 Asset retirement obligations.

(a) A public utility that files a rate schedule under § 35.12 or § 35.13 and has recorded an asset retirement obligation on its books must provide a schedule, as part of the supporting work papers, identifying all cost components related to the asset retirement obligations that are included in the book balances of all accounts reflected in the cost of service computation supporting the proposed rates. However, all cost components related to asset retirement obligations that would impact the calculation of rate base, such as electric plant and related accumulated depreciation and accumulated deferred income taxes, may not be reflected in rates and must be removed from the rate base calculation through a single adjustment.

(b) A public utility seeking to recover nonrate base costs related to asset retirement costs in rates must provide, with its filing under § 35.12 or § 35.13, a detailed study supporting the amounts proposed to be collected in rates.

(c) A public utility that has recorded asset retirement obligations on its books but is not seeking recovery of the asset retirement costs in rates, must remove all asset retirement obligations related cost components from the cost of service supporting its proposed rates.

* * * * *

PART 101– UNIFORM SYSTEM OF ACCOUNTS PRESCRIBED FOR PUBLIC UTILITIES AND LICENSEES SUBJECT TO THE PROVISIONS OF THE FEDERAL POWER ACT

3. The authority citation for part 101 continues to read as follows:

Authority: 16 U.S.C. 791a-825r, 2601-2645; 31 U.S.C. 9701; 42 U.S.C. 7101-7352, 7651-7651o.

4. In Definitions, Definition 10 is revised to read as follows:

Definitions

* * * * *

10. Cost of removal means the cost of demolishing, dismantling, tearing down or otherwise removing electric plant, including the cost of transportation and handling incidental thereto. It does not include the cost of removal activities associated with asset

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retirement obligations that are capitalized as part of the tangible long-lived assets that give rise to the obligation. (See General Instruction 25).

* * * * *

5. In General Instructions, Instruction 20, paragraphs C. and D. are redesignated as paragraphs D. and E. and new paragraph C. is added; and a new Instruction 25 is added to read as follows:

General Instructions

* * * * *

20. Accounting for leases.

* * * * *

C. The utility, as a lessee, shall recognize an asset retirement obligation (See General Instruction 25) arising from the plant under a capital lease unless the obligation is recorded as an asset and liability under a capital lease. The utility shall record the asset retirement cost by debiting account 101.1, Property under capital leases, or account 120.6, Nuclear fuel under capital leases, or account 121, Nonutility property, as appropriate, and crediting the liability for the asset retirement obligation in account 230, Asset retirement obligations. Asset retirement costs recorded in account 101.1, account 120.6, or account 121 shall be amortized by charging rent expense (See Operating Expense Instruction 3), or account 518, Nuclear fuel expense (Major only), or account 421, Miscellaneous nonoperating income, as appropriate, and crediting a separate

subaccount of the account in which the asset retirement costs are recorded. Charges for the periodic accretion of the liability in account 230, Asset retirement obligations, shall be recorded by a charge to account 411.10, Accretion expense, for electric utility plant, and account 421, Miscellaneous nonoperating income, for nonutility plant and a credit to account 230, Asset retirement obligations.

* * * * *

25. Accounting for asset retirement obligations.

A. An asset retirement obligation represents a liability for the legal obligation associated with the retirement of a tangible long-lived asset that a company is required to settle as a result of an existing or enacted law, statute, ordinance, or written or oral contract or by legal construction of a contract under the doctrine of promissory estoppel. An asset retirement cost represents the amount capitalized when the liability is recognized for the long-lived asset that gives rise to the legal obligation. The amount recognized for the liability and an associated asset retirement cost shall be stated at the fair value of the asset retirement obligation in the period in which the obligation is incurred.

B. The utility shall initially record a liability for an asset retirement obligation in account 230, Asset retirement obligations, and charge the associated asset retirement costs to electric utility plant (including accounts 101.1 and 120.6), and nonutility plant, as appropriate, related to the plant that gives rise to the legal obligation. The asset

retirement cost shall be depreciated over the useful life of the related asset that gives rise to the obligations. For periods subsequent to the initial recording of the asset retirement obligation, a utility shall recognize the period to period changes of the asset retirement obligation that result from the passage of time due to the accretion of the liability and any subsequent measurement changes to the initial liability for the legal obligation recorded in account 230, Asset retirement obligations, as follows:

(1) The utility shall record the accretion of the liability by debiting account 411.10, Accretion expense, for electric utility plant, account 413, Expenses of electric plant leased to others, for electric plant leased to others, and account 421, Miscellaneous nonoperating income, for nonutility plant and crediting account 230, Asset retirement obligations; and

(2) The utility shall recognize any subsequent measurement changes of the liability initially recorded in account 230, Asset retirement obligations, for each specific asset retirement obligation as an adjustment of that liability in account 230 with the corresponding adjustment to electric utility plant, electric plant leased to others, and nonutility plant, as appropriate. The utility shall on a timely basis monitor any measurement changes of the asset retirement obligations.

C. Gains or losses resulting from the settlement of asset retirement obligations associated with utility plant resulting from the difference between the amount of the liability for the asset retirement obligation included in account 230, Asset retirement

obligations, and the actual amount paid to settle the obligation shall be accounted for as follows:

(1) Gains shall be credited to account 411.6, Gains from disposition of utility plant, and;

(2) Losses shall be charged to account 411.7, Losses from disposition of utility plant.

D. Gains or losses on the settlement of asset retirement obligations associated with nonutility plant resulting from the difference between the amount of the liability for the asset retirement obligation in account 230, Asset retirement obligations, and the amount paid to settle the obligation, shall be accounted for as follows:

(1) Gains shall be credited to account 421, Miscellaneous nonoperating income, and;

(2) Losses shall be charged to account 426.5, Other deductions.

E. Separate subsidiary records shall be maintained for each asset retirement obligation showing the initial liability and associated asset retirement cost, any incremental amounts of the liability incurred in subsequent reporting periods for additional layers of the original liability and related asset retirement cost, the accretion of the liability, the subsequent measurement changes to the asset retirement obligation, the depreciation and amortization of the asset retirement costs and related accumulated depreciation, and the settlement date and actual amount paid to settle the obligation. For

purposes of analyses a utility shall maintain supporting documentation so as to be able to furnish accurately and expeditiously with respect to each asset retirement obligation the full details of the identity and nature of the legal obligation, the year incurred, the identity of the plant giving rise to the obligation, the full particulars relating to each component and supporting computations related to the measurement of the asset retirement obligation.

* * * * *

6. In Electric Plant Instructions, paragraph 3.A.(17)(a) the W element is revised; and a new paragraph 3.A.(21) is added to read as follows:

Electric Plant Instructions

* * * * *

3. Components of construction cost.

A. * * *

(17) * * *

(a) * * *

W = Average balance in construction work in progress plus nuclear fuel in process of refinement, conversion, enrichment and fabrication, less asset retirement costs (See General Instruction 25) related to plant under construction.

* * * * *

(21) Asset retirement costs. The costs recognized as a result of asset retirement obligations incurred during the construction and testing of utility plant shall constitute a component of construction costs.

* * * * *

7. Balance Sheet Accounts are amended as follows:

- (a) Account 101.1 is amended by adding a sentence to the end of paragraph C.;
- (b) Account 103 paragraph C. is revised;
- (c) Account 108 paragraph A.(2) through A.(7) are redesignated as paragraphs A.(3) through A.(8) a new paragraph A.(2) is added, and paragraph C. is amended by adding a sentence to the end of the paragraph;
- (d) Account 110 paragraph A.(2) through A.(4) are redesignated as paragraphs A.(3) through A.(5) a new paragraph A.(2) is added, and paragraph C. is amended by adding a sentence to the end of the paragraph;
- (e) Account 121, paragraph A. is amended by adding a sentence to the end of the paragraph; and
- (f) Account 230 is added.

The revision and additions read as follows:

Balance Sheet Accounts

* * * * *

101.1 Property under capital leases.

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* * * * *

C. * * * Records shall also be maintained for plant under a lease, to identify the asset retirement obligation and cost originally recognized for each lease and the periodic charges and credits made to the asset retirement obligations and asset retirement costs.

* * * * *

103 Experimental electric plant unclassified (Major only).

* * * * *

C. The depreciation on plant in this account shall be charged to account 403, Depreciation expense, and account 403.1, Depreciation expense for asset retirement costs, as appropriate, and credited to account 108, Accumulated provision for depreciation of electric utility plant (Major only). The amounts herein shall be depreciated over a period which corresponds to the estimated useful life of the relevant project considering the characteristics involved. However, when projects are transferred to account 101, Electric plant in service, a new depreciation rate based on the remaining service life and undepreciated amounts, will be established.

* * * * *

108 Accumulated provision for depreciation of electric utility plant (Major only).

A. * * *

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(2) Amounts charged to account 403.1, Depreciation expense for asset retirement costs, for current depreciation expense related to asset retirement costs in electric plant in service in a separate subaccount.

* * * * *

C. * * * Separate subsidiary records shall be maintained for the amount of accrued cost of removal other than legal obligations for the retirement of plant recorded in account 108, Accumulated provision for depreciation of electric utility plant (Major only).

* * * * *

110 Accumulated provision for depreciation and amortization of electric utility plant (Nonmajor only).

A. * * *

(2) Amounts charged to account 403.1, Depreciation expense for asset retirement costs, in electric utility plant in service in a separate subaccount.

* * * * *

C. * * * Separate subsidiary records shall be maintained for the amount of accrued cost of removal other than legal obligations for the retirement of plant recorded in account 110, Accumulated provision for depreciation of electric utility plant (Nonmajor only).

* * * * *

121 Nonutility property.

A. * * * This account shall also include, where applicable, amounts recorded for asset retirement costs associated with nonutility plant.

* * * * *

230 Asset retirement obligations.

A. This account shall include the amount of liabilities for the recognition of asset retirement obligations related to electric utility plant and nonutility plant that gives rise to the obligations. This account shall be credited for the amount of the liabilities for asset retirement obligations with amounts charged to the appropriate electric utility plant accounts or nonutility plant account to record the related asset retirement costs.

B. The utility shall charge the accretion expense to account 411.10, Accretion expense, for electric utility plant, account 413, Expenses of electric plant leased to others, for electric plant leased to others, or account 421, Miscellaneous nonoperating income, for nonutility plant, as appropriate, and credit account 230, Asset retirement obligations.

C. This account shall be debited with amounts paid to settle the asset retirement obligations recorded herein.

D. The utility shall clear from this account any gains or losses resulting from the settlement of asset retirement obligations in accordance with the instructions prescribed in General Instruction 25.

* * * * *

8. In Electric Plant Accounts, new primary plant accounts, 317, 326, 337, 347, 359.1, 374, and 399.1 are added to read as follows:

Electric Plant Accounts

* * * * *

317 Asset retirement costs for steam production plant.

This account shall include asset retirement costs on plant included in the steam production function.

* * * * *

326 Asset retirement costs for nuclear production plant (Major only).

This account shall include asset retirement costs on plant included in the nuclear production function.

* * * * *

337 Asset retirement costs for hydraulic production plant.

This account shall include asset retirement costs on plant included in the hydraulic production function.

* * * * *

347 Asset retirement costs for other production plant.

This account shall include asset retirement costs on plant included in the other production function.

* * * * *

359.1 Asset retirement costs for transmission plant.

This account shall include asset retirement costs on plant included in the transmission plant function.

* * * * *

374 Asset retirement costs for distribution plant.

This account shall include asset retirement costs on plant included in the distribution plant function.

* * * * *

399.1 Asset retirement costs for general plant.

This account shall include asset retirement costs on plant included in the general plant function.

* * * * *

9. Amend Income Accounts as follows:

a. Account 403.1 is added,

b. Accounts 411.6 and 411.7 are amended by designating the current paragraph as

A., and adding a new paragraph B.,

- c. Account 411.10 is added,
- d. In account 421, paragraphs 4. through 6. are added, and
- e. In account 426.5 paragraph 6 is added.

The additions read as follows:

Income Accounts

* * * * *

403.1 Depreciation expense for asset retirement costs.

This account shall include the depreciation expense for asset retirement costs included in electric utility plant in service.

* * * * *

411.6 Gains from disposition of utility property.

A. * * *

B. The utility shall record in this account gains resulting from the settlement of asset retirement obligations related to utility plant in accordance with the accounting prescribed in General Instruction 25.

* * * * *

411.7 Losses from disposition of utility property.

A. * * *

B. The utility shall record in this account losses resulting from the settlement of asset retirement obligations related to utility plant in accordance with the accounting prescribed in General Instruction 25.

* * * * *

411.10 Accretion expense.

This account shall be charged for accretion expense on the liabilities associated with asset retirement obligations included in account 230, Asset retirement obligations, related to electric utility plant.

* * * * *

421 Miscellaneous nonoperating income.

* * * * *

4. This account shall include the accretion expense on the liability for an asset retirement obligation included in account 230, Asset retirement obligations, related to nonutility plant.

5. This account shall include the depreciation expense for asset retirement costs related to nonutility plant.

6. The utility shall record in this account gains resulting from the settlement of asset retirement obligations related to nonutility plant in accordance with the accounting prescribed in General Instruction 25.

* * * * *

426.5 Other deductions.

* * * * *

6. The utility shall record in this account losses resulting from the settlement of asset retirement obligations related to nonutility plant in accordance with the accounting prescribed in General Instruction 25.

* * * * *

PART 154-RATE SCHEDULES AND TARIFFS

10. The authority citation for part 154 continues to read as follows:

Authority: 15 U.S.C. 717-717w; 31 U.S.C. 9701; 42 U.S.C. 7102-7352.

11. In § 154.312 paragraph (d), introductory text, is amended by removing the sentence "Any authorized negative salvage must be maintained in a separate subaccount of account 108," and adding in its place the following sentence to read as follows:

§ 154.312 Composition of Statements.

(d)* * * Any authorized negative salvage must be maintained in a separate subaccount of account 108, and shall not include any amounts related to asset retirement obligations. * * *

* * * * *

12. Section 154.315 is added to read as follows:

§ 154.315 Asset retirement obligations.

(a) A natural gas company that files a tariff change under this part and has recorded an asset retirement obligation on its books must provide a schedule, as part of the supporting workpapers, identifying all cost components related to the asset retirement obligations that are included in the book balances of all accounts reflected in the cost of service computation supporting the proposed rates. However, all cost components related to asset retirement obligations that would impact the calculation of rate base, such as gas plant and related accumulated depreciation and accumulated deferred income taxes, may not be reflected in rates and must be removed from the rate base calculation through a single adjustment.

(b) A natural gas company seeking to recover nonrate base costs related to asset retirement obligations in rates must provide, with its filing under § 154.312 or § 154.313, a detailed study supporting the amounts proposed to be collected in rates.

(c) A natural gas company who has recorded asset retirement obligations on its books but is not seeking recovery of the asset retirement costs in rates, must remove all asset retirement obligations related cost components from the cost of service supporting its proposed rates.

**PART 201-- UNIFORM SYSTEM OF ACCOUNTS PRESCRIBED FOR
NATURAL GAS COMPANIES SUBJECT TO THE PROVISIONS OF THE
NATURAL GAS ACT**

13. The authority citation for part 201 continues to read as follows:

Authority: 15 U.S.C. 717-717w, 3301-3432; 42 U.S.C. 7101-7352, 7651-7651o.

14. In Definitions, Definition 10 is revised to read as follows:

Definitions

* * * * *

10. Cost of removal means the cost of demolishing, dismantling, tearing down or otherwise removing gas plant, including the cost of transportation and handling incidental thereto. It does not include the cost of removal activities associated with asset retirement obligations that are capitalized as part of the tangible long-lived assets that give rise to the obligation. (See General Instruction 24).

* * * * *

15. In General Instructions, Instruction 20 paragraphs C. and D. are redesignated as paragraphs D. and E. and a new paragraph C. is added; and a new Instruction 24 is added to read as follows:

General Instructions

* * * * *

20. Accounting for leases.

* * * * *

C. The utility, as a lessee, shall recognize an asset retirement obligation (See General Instruction 24) arising from the plant under a capital lease unless the obligation is recorded as an asset and liability under a capital lease. The utility shall record the asset

retirement cost by debiting account 101.1, Property under capital leases, or account 121, Nonutility property, as appropriate, and crediting the liability for the asset retirement obligation in account 230, Asset retirement obligations. Asset retirement costs recorded in account 101.1 or account 121 shall be amortized by charging rent expense (See Operating Expense Instruction 3) or account 421, Miscellaneous nonoperating income, as appropriate, and crediting a separate subaccount of the account in which the asset retirement costs are recorded. Charges for the periodic accretion of the liability in account 230, Asset retirement obligations, shall be recorded by a charge to account 411.10, Accretion expense, for gas utility plant, and account 421, Miscellaneous nonoperating income, for nonutility plant and a credit to account 230, Asset retirement obligations.

* * * * *

24. Accounting for asset retirement obligations.

A. An asset retirement obligation represents a liability for the legal obligation associated with the retirement of a tangible long-lived asset that a utility is required to settle as a result of an existing or enacted law, statute, ordinance, or written or oral contract or by legal construction of a contract under the doctrine of promissory estoppel. An asset retirement cost represents the amount capitalized when the liability is recognized for the long-lived asset that gives rise to the legal obligation. The amount recognized for the liability and an associated asset retirement cost shall be stated at the

fair value of the asset retirement obligation in the period in which the obligation is incurred.

B. The utility shall initially record a liability for an asset retirement obligation in account 230, Asset retirement obligations, and charge the associated asset retirement costs to gas utility plant and nonutility plant, as appropriate, related to the plant that gives rise to the legal obligation. The asset retirement cost shall be depreciated over the useful life of the related asset that gives rise to the obligations. For periods subsequent to the initial recording of the asset retirement obligation, a utility shall recognize the period to period changes of the asset retirement obligation that result from the passage of time due to the accretion of the liability and any subsequent measurement changes to the initial liability for the legal obligation recorded in account 230, Asset retirement obligations, as follows:

(1) The utility shall record the accretion of the liability by debiting account 411.10, Accretion expense, for gas utility plant, account 413, Expenses of gas plant leased to others, for gas plants leased to others, and account 421, Miscellaneous nonoperating income, for nonutility plant and crediting account 230, Asset retirement obligations; and (2) The utility shall recognize any subsequent measurement changes of the liability initially recorded in account 230, Asset retirement obligations, for each specific asset retirement obligation as an adjustment of that liability in account 230 with the corresponding adjustment to gas utility plant, gas plant leased to others, and

nonutility plant, as appropriate. The utility shall on a timely basis monitor any measurement changes of the asset retirement obligations.

C. Gains or losses resulting from the settlement of asset retirement obligations associated with utility plant resulting from the difference between the amount of the liability for the asset retirement obligation included in account 230, Asset retirement obligations, and the actual amount paid to settle the obligation shall be accounted for as follows:

(1) Gains shall be credited to account 411.6, Gains from disposition of utility plant, and;

(2) Losses shall be charged to account 411.7, Losses from disposition of utility plant.

D. Gains or losses on the settlement of the asset retirement obligations associated with nonutility plant resulting from the difference between the amount of the liability for the asset retirement obligation in account 230, Asset retirement obligations, and the amount paid to settle the obligation, shall be accounted for as follows:

(1) Gains shall be credited to account 421, Miscellaneous nonoperating income, and;

(2) Losses shall be charged to account 426.5, Other deductions.

E. Separate subsidiary records shall be maintained for each asset retirement obligation showing the initial liability and associated asset retirement cost, any

incremental amounts of the liability incurred in subsequent reporting periods for additional layers of the original liability and related asset retirement cost, the accretion of the liability, the subsequent measurement changes to the asset retirement obligation, the depreciation and amortization of the asset retirement costs and related accumulated depreciation, and the settlement date and actual amount paid to settle the obligation. For purposes of analyses a utility shall maintain supporting documentation so as to be able to furnish accurately and expeditiously with respect to each asset retirement obligation the full details of the identity and nature of the legal obligation, the year incurred, the identity of the plant giving rise to the obligation, the full particulars relating to each component and supporting computations related to the measurement of the asset retirement obligation.

* * * * *

16. In Gas Plant Instructions, paragraph 3.A.(17)(a) the W element is revised; and new paragraph 3.A.(23) is added to read as follows:

Gas Plant Instructions

* * * * *

3. Components of construction cost.

A. * * *

(17) * * *

(a) * * *

W = Average balance in construction work in progress less asset retirement costs
(See General Instruction 24) related to plant under construction.

* * * * *

(23) "Asset retirement costs." The costs recognized as a result of asset retirement obligations incurred during the construction and testing of utility plant shall constitute a component of construction costs.

* * * * *

17. Balance Sheet Accounts are amended as follows:

- (a) Account 101.1, is amended by adding a sentence to the end of paragraph C.;
- (b) Account 103, paragraph C. is revised;
- (c) Account 108, paragraphs A.(2) through A.(7) are redesignated as paragraphs A.(3) through A.(8), a new paragraph A.(2) is added, and paragraph C. is amended by adding a sentence to the end of the paragraph;
- (d) Account 121, paragraph A. is amended by adding a sentence to the end of the paragraph; and
- (e) Account 230 is added.

The additions and revisions read as follows:

Balance Sheet Accounts

* * * * *

101.1 Property under capital leases.

* * * * *

C. * * * Records shall also be maintained for plant under a lease, to identify the asset retirement obligation and cost originally recognized for each lease and the periodic charges and credits made to the asset retirement obligations and asset retirement costs.

* * * * *

103 Experimental gas plant unclassified.

* * * * *

C. The depreciation on plant in this account shall be charged to account 403, Depreciation expense, and account 403.1, Depreciation expense for asset retirement costs, as appropriate, and credited to account 108, Accumulated provision for depreciation of gas utility plant. The amounts herein shall be depreciated over a period which corresponds to the estimated useful life of the relevant project considering the characteristics involved. However, when projects are transferred to account 101, Gas plant in service, a new depreciation rate based on the remaining service life and undepreciated amounts, will be established.

* * * * *

108 Accumulated provision for depreciation of gas utility plant.

A. * * *

(2) Amounts charged to account 403.1, Depreciation expense for asset retirement costs, for current depreciation expense related to asset retirement costs in gas plant in service in a separate subaccount.

* * * * *

C. * * * Separate subsidiary records shall be maintained for the amount of accrued cost of removal other than legal obligations for the retirement of plant recorded in account 108, Accumulated provision for depreciation of gas utility plant.

* * * * *

121 Nonutility property.

A. * * * This account shall also include, where applicable, amounts recorded for asset retirement costs associated with nonutility plant.

* * * * *

230 Asset retirement obligations.

A. This account shall include the amount of liabilities for the recognition of asset retirement obligations related to gas utility plant and nonutility plant that gives rise to the obligations. This account shall be credited for the amount of the liabilities for asset retirement obligations with amounts charged to the appropriate gas utility plant accounts or nonutility plant accounts to record the related asset retirement costs.

B. This account shall also include the period to period changes for the accretion of the liabilities in account 230, Asset retirement obligations. The utility shall charge the

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accretion expense to account 411.10, Accretion expense, for gas utility plant, account 413, Expenses of gas plant leased to others, for gas plant leased to others, or account 421, Miscellaneous nonoperating income, for nonutility plant, as appropriate, and credit account 230, Asset retirement obligations.

C. This account shall be debited with amounts paid to settle the asset retirement obligations recorded herein.

D. The utility shall clear from this account any gains or losses resulting from the settlement of asset retirement obligations in accordance with the instructions prescribed in General Instruction 24.

* * * * *

18. In Gas Plant Accounts, new primary plant accounts, 321, 339, 348, 358, 363.6, 364.9, 372, 388, and 399.1 are added to read as follows:

Gas Plant Accounts

* * * * *

321 Asset retirement costs for manufactured gas production plant.

This account shall include asset retirement costs on plant included in the manufactured gas production plant function.

* * * * *

339 Asset retirement costs for natural gas production and gathering plant.

This account shall include asset retirement costs on plant included in the natural gas production and gathering plant function.

* * * * *

348 Asset retirement costs for products extraction plant.

This account shall include asset retirement costs on plant included in the products extraction plant function.

* * * * *

358 Asset retirement costs for underground storage plant.

This account shall include asset retirement costs on plant included in the underground storage plant function.

* * * * *

363.6 Asset retirement costs for other storage plant.

This account shall include asset retirement costs on plant included in the other storage plant function.

* * * * *

372 Asset retirement costs for transmission plant.

This account shall include asset retirement costs on plant included in the transmission plant function.

* * * * *

388 Asset retirement costs for distribution plant.

This account shall include asset retirement costs on plant included in the distribution plant function.

* * * * *

399.1 Asset retirement costs for general plant.

This account shall include asset retirement costs on plant included in the general plant function.

* * * * *

19. Income Accounts are amended as follows:

a. Account 403.1 is added,

b. Accounts 411.6 and 411.7 are amended by designating the current paragraph as

A. and adding a new paragraph B.,

c. Account 411.10 is added,

d. In Account 421, paragraphs 4. through 6. are added, and

e. In Account 426.5 paragraph 6. is added.

The additions read as follows:

Income Accounts

* * * * *

403.1 Depreciation expense for asset retirement costs.

This account shall include the depreciation expense for asset retirement costs included in gas utility plant in service.

* * * * *

411.6 Gains from disposition of utility property.

A. * * *

B. The utility shall record in this account gains resulting from the settlement of asset retirement obligations related to utility plant in accordance with the accounting prescribed in General Instruction 24.

* * * * *

411.7 Losses from disposition of utility property.

A. * * *

B. The utility shall record in this account losses resulting from the settlement of asset retirement obligations related to utility plant in accordance with the accounting prescribed in General Instruction 24.

* * * * *

411.10 Accretion expense.

This account shall be charged for accretion expense on the liabilities associated with asset retirement obligations included in account 230, Asset retirement obligations, related to gas utility plant.

* * * * *

421 Miscellaneous nonoperating income.

* * * * *

4. This account shall include the accretion expense on the liability for an asset retirement obligation included in account 230, Asset retirement obligations, related to nonutility plant.

5. This account shall include the depreciation expense for asset retirement costs related to nonutility plant.

6. The utility shall record in this account gains resulting from the settlement of asset retirement obligations related to nonutility plant in accordance with the accounting prescribed in General Instruction 24.

* * * * *

426.5 Other deductions.

* * * * *

6. The utility shall record in this account losses resulting from the settlement of asset retirement obligations related to nonutility plant in accordance with the accounting prescribed in General Instruction 24.

* * * * *

PART 346-OIL PIPELINE COST-OF-SERVICE FILING REQUIREMENTS

20. The authority citation for part 346 continues to read as follows:

Authority: 42 U.S.C. 7101-7352; 49 U.S.C. 60502; 49 App. U.S.C. 1-85.

21. Section 346.3 is added to read as follows:

§ 346.3 Asset retirement obligations.

(a) A carrier that files material in support of initial rates or change in rates under § 346.2 and has recorded asset retirement obligations on its books must provide a schedule, as part of the supporting workpapers, identifying all cost components related to the asset retirement obligations that are included in the book balances of all accounts reflected in the cost of service computation supporting the proposed rates. However, all cost components related to asset retirement obligations that would impact the calculation of rate base, such as carrier property and related accumulated depreciation and accumulated deferred income taxes, may not be reflected in rates and must be removed from the rate base calculation through a single adjustment.

(b) A carrier seeking to recover nonrate base costs related to asset retirement costs in rates must provide, with its filing under § 346.2 of this part, a detailed study supporting the amounts proposed to be collected in rates.

(c) A carrier who has recorded asset retirement obligations on its books but is not seeking recovery of the asset retirement costs in rates, must remove all asset retirement obligations related cost components from the cost of service supporting its proposed rates.

**PART 352-- UNIFORM SYSTEMS OF ACCOUNTS PRESCRIBED FOR OIL
PIPELINE COMPANIES SUBJECT TO THE PROVISIONS OF THE
INTERSTATE COMMERCE ACT**

22. The authority citation for part 352 continues to read as follows:

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Authority: 49 U.S.C. 60502; 49 App. U.S.C. 1-85 (1988).

23. In List of Instructions and Accounts, under Definitions, Definition 12 is revised to read as follows:

Definitions. * * *

12. Cost of removal means cost of demolishing, dismantling, tearing down, or otherwise removing property including costs of handling and transportation. It does not include the cost of removal activities associated with asset retirement obligations that are capitalized as part of the tangible long-lived assets that give rise to the obligation. (See General Instruction 1-19).

* * * * *

24. In General Instructions, paragraph 1-19 is added to read as follows:

General Instructions

* * * * *

1-19 Accounting for asset retirement obligations.

(a) An asset retirement obligation represents a liability for the legal obligation associated with the retirement of a tangible long-lived asset that a utility is required to settle as a result of an existing or enacted law, statute, ordinance, or written or oral contract or by legal construction of a contract under the doctrine of promissory estoppel. An asset retirement cost represents the amount capitalized when the liability is recognized for the long-lived asset that gives rise to the legal obligation. The amount

recognized for the liability and an associated asset retirement cost shall be stated at the fair value of the asset retirement obligation in the period in which the obligation is incurred.

(b) The carrier shall initially record a liability for an asset retirement obligation in account 67, Asset retirement obligations, and charge the associated asset retirement costs to account 30, Carrier property, and account 34, Noncarrier property, as appropriate, related to the property that gives rise to the legal obligation. The asset retirement cost shall be depreciated over the useful life of the related asset that gives rise to the obligations. For periods subsequent to the initial recording of the asset retirement obligation, a carrier shall recognize the period to period changes of the asset retirement obligation that result from the passage of time due to the accretion of the liability and any subsequent measurement revisions to the initial liability for the legal obligation recorded in account 67, Asset retirement obligations, as follows:

(1) The carrier shall record the accretion of the liability by debiting account 591, Accretion expense, for carrier property, account 620, Income (net) from noncarrier property, for noncarrier property and crediting account 67, Asset retirement obligations; and

(2) The carrier shall recognize any subsequent measurement changes of the liability initially recorded in account 67, Asset retirement obligations, for each specific asset retirement obligation as an adjustment of that liability in account 67 with the

corresponding adjustment to carrier property and noncarrier property accounts, as appropriate. The utility shall on a timely basis monitor any measurement changes of the asset retirement obligations.

(c) Gains or losses resulting from the final settlement of asset retirement obligations for carrier plant resulting from the difference between the amount of the liability for the asset retirement obligation in account 67, Asset retirement obligations, and the actual amount to settle the obligation, shall be recorded in account 592, Gains or losses on asset retirement obligations.

(d) Gains or losses resulting from the final settlement of asset retirement obligations for noncarrier plant resulting from the difference between the amount of the liability for the asset retirement obligation in account 67, Asset retirement obligations, and the actual amount to settle the obligation, shall be recorded in account 620, Income (net) from noncarrier property.

(e) Separate subsidiary records shall be maintained for each asset retirement obligation showing the initial liability and associated asset retirement cost, any incremental amounts of the liability incurred in subsequent reporting periods for additional layers of the original liability and related asset retirement cost, the accretion of the liability, the subsequent measurement changes to the asset retirement obligation, the depreciation and amortization of the asset retirement costs and related accumulated depreciation, and the settlement date and actual amount paid to settle the obligation. For

purposes of analyses a carrier shall maintain supporting documentation so as to be able to furnish accurately and expeditiously with respect to each asset retirement obligation the full details of the identity and nature of the legal obligation, the year incurred, the identity of the plant giving rise to the obligation, the full particulars relating to each component and supporting computations related to the measurement of the asset retirement obligation.

* * * * *

25. In Instructions for Carrier Property Accounts, Instruction 3-3, paragraph (11)(iii) and paragraph (13) are added to read as follows:

Instructions for Carrier Property Accounts

* * * * *

3-3 Cost of property constructed. * * *

(11) * * *

(iii) Interest during construction shall not be recognized on the asset retirement costs incurred during the construction of carrier and noncarrier property.

* * * * *

(13) Asset retirement costs that are recognized as a result of asset retirement obligations incurred during construction shall be included in the cost of construction costs.

* * * * *

26. In Balance Sheet Accounts, account 31 is amended by adding a sentence to the end of paragraph, account 34 is amended by adding a sentence to the end of paragraph and account 67 is added to read as follows:

Balance Sheet Accounts

* * * * *

31 * * * Separate subsidiary records shall be maintained for the amount of accrued cost of removal other than legal obligations for the retirement of property recorded in account 31, Accrued depreciation – Carrier property.

* * * * *

34 * * * This account shall also include, amounts recorded for asset retirement costs associated with noncarrier property.

* * * * *

67 Asset retirement obligations.

A. This account shall include liabilities arising from the recognition of asset retirement obligations. The carrier shall credit account 67, Asset retirement obligations, for the liabilities for asset retirement obligations and charge the appropriate carrier property accounts or noncarrier property accounts to record the related asset retirement costs.

B. This account shall also include the period to period changes for the accretion of the liabilities in account 67, Asset retirement obligations. The carrier shall charge the

accretion expense to account 591, Accretion expense, for carrier property, and account 620, Income (net) from noncarrier property, for noncarrier property, as appropriate, and credit account 67, Asset retirement obligations.

C. This account shall be debited with amounts paid to settle the asset retirement obligations recorded herein.

D. The utility shall clear from this account any gains or losses resulting from the settlement of asset retirement obligations in accordance with the instructions prescribed in General Instruction 1-19.

* * * * *

27. In Carrier Property Accounts, accounts 117, 167, 186.1 are added to read as follows:

Carrier Property Accounts

* * * * *

117, 167, 186.1 Asset retirement costs.

This account shall include asset retirement costs on plant included in carrier property.

* * * * *

28. In Operating Expenses, accounts 541, 591 and 592 are added to read as follows:

Operating Expenses

* * * * *

541 Depreciation expense for asset retirement costs.

This account shall include charges for the depreciation of asset retirement costs related to transportation property.

* * * * *

591 Accretion expense.

This account shall be charged for accretion expense on the liabilities associated with asset retirement obligations included in account 67, Asset retirement obligations. The carrier shall record in this account the settlement amounts for asset retirement obligations related to carrier property in accordance with the accounting prescribed in General Instruction 1-19.

592 Gains or losses on asset retirement obligations.

The carrier shall record in this account gains or losses resulting from the settlement amounts for asset retirement obligations related to carrier property plant. (See General Instruction 1-19).

* * * * *

NOTE: THE FOLLOWING APPENDICES WILL NOT BE PUBLISHED IN THE CODE OF FEDERAL REGULATIONS.

APPENDIX A

LIST OF COMMENTERS

	Respondent	Abbreviation
1	Arkansas Public Service Commission	Arkansas PSC
2	Don Bjerke	Bjerke
3	Deloitte & Touche LLP	Deloitte & Touche
4	Edison Electric Institute	EEI
5	FirstEnergy Corp.	FirstEnergy
6	John S. Ferguson	Ferguson
7	K. C. Martin	K.C. Martin
8	Missouri Public Service Commission	MoPSC
9	National Association of State Utility Consumer Advocates	NASUCA
10	National Grid USA	National Grid
11	National Rural Electric Cooperative Assn.	NRECA
12	Northern Natural Gas Company	Northern Natural
13	PacifiCorp	PacifiCorp
14	Progress Energy, Inc.	Progress Energy
15	Rural Utilities Service	RUS
16	Southern Company	Southern

APPENDIX B**SUMMARY OF CHANGES TO SCHEDULES
FOR FORMS 1, 1-F, 2, 2-A AND 6**

	Schedule Title	Forms 1 and 1-F Public Utilities and Licensees	Forms 2 and 2A Natural Gas Companies	Form 6 Oil Pipeline Companies
1	List of Schedules	Revise to show schedule changes.	Same as Public Utilities and Licensees	Same as Public Utilities and Licensees
2	Comparative Balance Sheet	Add new account 230 to report asset retirement obligations.	Same as Public Utilities and Licensees	Add account 67 to report asset retirement obligations.
3	Statement of Income for the Year	Add new accounts 403.1, to report depreciation expense and 411.10, to report accretion expense.	Same as Public Utilities and Licensees	Add accounts 541, to report depreciation expense, 591, to report accretion expense, and 592, to report gains or losses on asset retirement obligations.
4	Plant in Service	Add new Instruction 4. For revisions to the amount of initial asset retirement costs capitalized, included by primary plant account, increases in column (c) additions and reductions in column (e) adjustments. Add new primary asset retirement accounts, 317, 326, 337, 347, 359.1, 374 and 399.1, for each plant function.	Same as Public Utilities and Licensees Add new primary asset retirement accounts, 339, 348, 358, 363.6, 364.9, 372, 388, 399.1, for each plant function.	N/A N/A

	Schedule Title	Forms 1 and 1-F Public Utilities and Licensees	Forms 2 and 2A Natural Gas Companies	Form 6 Oil Pipeline Companies
5	Undivided Joint Interest Property	N/A	N/A	Add new primary asset retirement accounts, 117, 167, and 186.1, for each carrier property account function.
6	Accumulated Provision for Depreciation of Utility Plant	Added lines to report "403.1 Depreciation Expense for Asset Retirement Costs" and "Book Cost of Asset Retirement Costs Retired."	Same as Public Utilities and Licensees	N/A.
7	Accrued Depreciation -Carrier Property	N/A	N/A	Add new primary asset retirement accounts, 117, 167, and 186.1, for each carrier property account function and revise column (c) to read Debits to Accounts 540 and 541 of USofA (in dollars).
8	Accrued Depreciation - Undivided Joint Interest Property	N/A	N/A	Same as above for Accrued Depreciation - Carrier Property

	Schedule Title	Forms 1 and 1-F Public Utilities and Licensees	Forms 2 and 2A Natural Gas Companies	Form 6 Oil Pipeline Companies
9	Depreciation and Amortization of Plant (Except Amortization of Acquisition Adjustments)	Add new Column (c), Depreciation Expense for Asset Retirement Costs (403.1).	Same as Public Utilities and Licensees Form 2-A N/A	N/A
10	Amortization Base and Reserve	N/A	N/A	Revise header over columns (b), (c), (d) and (e) to read (Base 540 and 541).
11	Steam-Electric Generating Plant Statistics (Large Plants)	Form 1 - Revise to report Asset Retirement Costs. Form 1-F N/A	N/A	N/A
12	Hydroelectric Generating Plant Statistics (Large Plants)	Form 1 - Revise to report Asset Retirement Costs. Form 1-F N/A	N/A	N/A
13	Pumped Storage Generating Plant Statistics (Large Plants)	Form 1 - Revise to report Asset Retirement Costs. Form 1-F N/A	N/A	N/A

	Schedule Title	Forms 1 and 1-F Public Utilities and Licensees	Forms 2 and 2A Natural Gas Companies	Form 6 Oil Pipeline Companies
14	Generating Plant Statistics (Small Plants) (Continued)	Form 1 - Revise Column (g), to read "Plant Cost (Including Asset Retirement Costs) Per MW Installed Capacity." Form 1-F N/A	N/A	N/A
15	Transmission Lines Added During the Year	Form 1 - Add column (o) "Asset Retirement Costs" to report asset retirements costs as part of line cost. Form 1-F N/A	N/A	N/A