

174 FERC ¶ 61,032
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

[Docket No. RM21-11-000]

Accounting and Reporting Treatment of Certain Renewable Energy Assets

(January 19, 2021)

AGENCY: Federal Energy Regulatory Commission.

ACTION: Notice of Inquiry.

SUMMARY: In this Notice of Inquiry, the Federal Energy Regulatory Commission (Commission) seeks comments on the accounting and reporting treatment of certain renewable energy generating assets and renewable energy credits. In addition, the Commission seeks comments on the ratemaking implications of these accounting and reporting changes.

DATES: Initial Comments are due **[INSERT DATE 60 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]**, and Reply Comments are due **[INSERT DATE 90 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]**.

ADDRESSES: Comments, identified by docket number, may be filed in the following ways:

- Electronic Filing through <http://www.ferc.gov>. Documents created electronically using word processing software should be filed in native applications or print-to-PDF format and not in a scanned format.
- Mail/Hand Delivery: Those unable to file electronically may mail or hand-deliver

comments to: Federal Energy Regulatory Commission, Secretary of the Commission, 888 First Street NE, Washington, DC 20426.

- *Instructions:* For detailed instructions on submitting comments, see the Comment Procedures Section of this document.

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SUPPLEMENTARY INFORMATION:

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FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: James P. Danly, Chairman;
Neil Chatterjee, Richard Glick,
Allison Clements, and Mark C. Christie.

Accounting and Reporting Treatment of Certain
Renewable Energy Assets

Docket No. RM21-11-000

NOTICE OF INQUIRY

(January 19, 2021)

1. In this Notice of Inquiry (NOI), the Federal Energy Regulatory Commission (Commission) seeks comments on the appropriate accounting treatment for certain renewable energy assets. First, the Commission seeks comments on whether to create new accounts within the Uniform System of Accounts (USofA) for non-hydro renewable energy generating assets,¹ and, if so, how such accounts should be organized. Second, the Commission seeks comments on how to modify FERC Form No. 1 to reflect any new accounts. Third, the Commission seeks comments on whether to codify the proper

¹ Non-hydro renewable assets, as referred to in this notice, are production assets other than hydroelectric generators such as solar, wind energy, geothermal, biomass, etc., that rely on the heat or motion of the earth or sun's radiation to produce energy. Specifically, these are denoted as renewable because the power production is based on a fuel source that is not consumed or destroyed by the generation process, such as buried hydrocarbons (coal, oil, natural gas), or the decay of rare irradiated heavy metals (nuclear). Biomass (trees, nut shells, grain husks and stalks, etc.) is considered renewable, despite its hydrocarbon source being consumed, due to its carbon release being offset by regrowth of carbon capturing equivalent biomass.

accounting treatment of the purchase, generation, and use of renewable energy credits (RECs). Finally, the Commission seeks comments on the rate setting implications of these potential accounting and reporting changes.

I. Background

2. The USofA contains discrete accounts for steam production, nuclear production, hydraulic production, and other production.² However, the USofA does not contain any accounts designed specifically for solar, wind, or other non-hydro renewable generating assets. Therefore, electric utilities currently record non-hydro renewable assets in the Other Production accounts of the USofA. Commenters have indicated that companies exercise “reasonable judgment” when determining in which Other Production account to book these assets.³

3. Recently, parties have expressed disagreement regarding which Other Production accounts should be used to book non-hydro renewable assets. In Docket No. AC20-103, the Commission received a request for confirmation that the costs of certain wind and solar generating equipment are properly booked to the Other Production Accounts 343 (Prime Movers), 344 (Generators), and 345 (Accessory Electric Equipment). In that proceeding, commenters argued that the proposal booked an inappropriate amount of

² 18 CFR Part 101; *Accounting and Financial Reporting for Public Utilities Including RTOs*, Order No. 668, 113 FERC ¶ 61,276 at 59 (2005).

³ Comments of the Edison Electric Institute, Docket No. AC20-103-000, at 3 (filed May 28, 2020).

costs to Account 345, which are included in reactive power rates pursuant to the *AEP Methodology*.⁴ Commenters, including the Edison Electric Institute, suggested that the Commission consider creating new accounts for wind, solar, and other non-hydro renewables to resolve this issue.⁵ Concurrently with the issuance of this Notice of Inquiry, the Commission is issuing an order in Docket No. AC20-103, denying the request and explaining that this Notice of Inquiry will begin a proceeding in which the Commission will evaluate the need for further guidance regarding the proper accounting treatment of non-hydro renewable generating assets.

4. In addition, the existing USofA accounts do not explicitly address the accounting treatment of the purchase, generation, or use of RECs. However, the Commission has stated that RECs are analogous to the sulfur dioxide emission allowances created by Title IV of the Clean Air Act Amendments of 1990, which the Commission addressed in Order No. 552.⁶ Order No. 552 classified emission allowances as inventoriable items and established new inventory and expense accounts to record the allowances.⁷ In keeping

⁴ Comments of Ameren Services Company, Docket No. AC20-103-000, at 8-9 (filed May 28, 2020).

⁵ *Id.* at 6-7; Comments of Edison Electric Institute at 4.

⁶ *Ameren Illinois Co.*, 170 FERC ¶ 61,267, at P 52 (2020) (citing *Revisions to Uniform Systems of Accounts to Account for Allowances under the Clean Air Act Amendments of 1990 and Regulatory-Created Assets and Liabilities and to Form Nos. 1, 1-F, 2 and 2-A*, Order No. 552, FERC Stats. and Regs. ¶ 30,967 (1993) (cross-referenced at 62 FERC ¶ 61,299)).

⁷ *Revisions to Uniform Systems of Accounts to Account for Allowances under the Clean Air Act Amendments of 1990 and Regulatory-Created Assets and Liabilities and to*

with Order No. 552, the Commission has found that RECs that are purchased or generated should be recorded in Account 158.1 (Allowance Inventory) and expensed to Account 509 (Allowances) as they are utilized.⁸ In addition to examining the issues identified above, we believe further consideration of whether to clarify and codify this accounting practice by modifying the account instructions of these inventory and expense accounts to explicitly include RECs is warranted at this time.

II. Discussion

A. Creation of New USofA Accounts

5. Currently, electric utilities record non-hydro renewable assets, and associated operations and maintenance (O&M) expenses, in the “Other Production” function within the USofA.⁹ Within the USofA, the existing plant and associated O&M account

Form Nos. 1, 1-F, 2 and 2-A, Order No. 552, FERC Stats. and Regs. ¶ 30,967 (cross-referenced at 62 FERC ¶ 61,299).

⁸ *Ameren Illinois Co.*, 170 FERC ¶ 61,267 at P 52.

⁹ 18 CFR Part 101 Other Production includes the following Plant in Service Accounts: 340 (Land and Land Rights), 341 (Structures and Improvements), 342 (Fuel Holders, Producers, and Accessories), 343 (Prime Movers), 344 (Generators), 345 (Accessory Electric Equipment), 346 (Miscellaneous Power Plant Equipment), 347 (Asset Retirement Costs for Other Production Plant), and 348 (Energy Storage Equipment - Production). Also included are the following O&M Accounts: 546 (Operation Supervision and Engineering), 547 (Fuel), 548 Generation expenses (Major only), 548.1 (Operation of Energy Storage Equipment), 549 (Miscellaneous Other Power Generation Expenses) (Major only)), 550 (Rents), 550.1 (Operation Supplies and Expenses (Nonmajor only)), 551 (Maintenance Supervision and Engineering) (Major only)), 552 (Maintenance of Structures (Major only)), 553 (Maintenance of Generating and Electric Plant (Major only)), 553.1 (Maintenance of Energy Storage Equipment),

definitions do not provide instructions or examples of items that are used in non-hydro renewable energy production, specifically for wind and solar powered production.¹⁰ This may be viewed as either a problem of insufficient account instructions, insufficient existing accounts, or insufficient existing functional categories.

6. For instance, there is no account that clearly captures solar panels. Solar panels are not fuel holders (Account 342), prime movers (Account 343) or generators (Account 344).¹¹ Account 342 includes:

[T]he cost installed of fuel handling and storage equipment used between the point of fuel delivery to the station and the intake pipe through which fuel is directly drawn to the engine, also the cost of gas producers and accessories devoted to the production of gas for use in prime movers driving main electric generators.¹²

554 (Maintenance of Miscellaneous Other Power Generation Plant (Major only)), and 554.1 (Maintenance of Other Power Production Plant (Nonmajor only)).

¹⁰ In contrast, geothermal and biomass generation generally operate based on either floor mounted steam turbines or floor mounted fuel cycle turbines much like buried hydrocarbon generation, and thus, these plant in service assets can be fitted more readily into the existing descriptions of production accounts.

¹¹ 18 CFR Part 101, Instructions for Accounts 342, 343, and 344.

¹² *Id.*, Instructions for Account 342.

Solar panels do not store sunlight, and they have no moving parts; instead, solar energy is captured passively as radiation and is then converted electrochemically into electricity.

Therefore, solar panels are not fuel holders. Similarly, Account 343 “include[s] the cost installed of Diesel or other prime movers devoted to the generation of electric energy, together with their auxiliaries,” while Account 344 “include[s] the cost installed of Diesel or other power driven main generators.”¹³ Both of these accounts describe equipment that operates like a diesel-powered turbine. Solar panels, which capture and convert a radiated energy source, are not prime movers or power-driven main generators.

7. Photovoltaic (PV) inverters also do not fit within any of the definitions of the Other Production accounts. Inverters convert the direct current output of a PV solar panel into alternating current. None of the existing Other Production accounts accommodate such a component in their current form.

8. Similarly, there is no account that includes wind generation towers. Such towers do not meet the definition of structures and improvements (Account 341), miscellaneous power plant equipment (Account 346) or accessory electric equipment (Account 345).¹⁴ Specifically, the height of wind generation towers is central to the capture of wind

¹³ *Id.*, Instructions for Accounts 343 and 344. These are not defined in the USofA, but from common usage a “prime mover” would be the source of the initial force that moves the turbine or similar device (the diesel here). The “power driven main generator” would be the turbine, from the tines or blades to the dynamo, including the pressure casing and the shaft.

¹⁴ *Id.*, Instructions for Accounts 341, 345, and 346.

energy; therefore, it is not simply a sheltering structure or a miscellaneous or accessory system. While wind generation towers do provide structural support for the turbine and blades, this is only a part of the towers' function, not its primary role. The Commission has previously created separate categories for plant assets that did not fit into existing accounts due to unique features or functionality; such an approach may be appropriate here as well.¹⁵

9. Additionally, there are no accounts for computer hardware and software required to operate wind and solar generation remotely. Also, Account 553, major maintenance of generating and electric plant, which only includes costs associated with Accounts 343, 344, and 345, does not accommodate costs to record maintenance of solar panels, wind turbine blades, or wind generation towers.¹⁶ Similarly, some of the O&M accounts do not apply to the related non-hydro renewable energy assets. For example, Account 547 (Fuel) is not applicable to wind and solar generation.¹⁷

¹⁵ The Hydraulic Production category contains accounts created for hydro-related items that do not fit in as sheltering structures, such as a hydro dam that is central to the capture of the flow of water includable in Account 332 (Reservoirs, Dams, and Waterways). The instructions to Account 332 state: "This account shall include the cost in place of facilities used for impounding, collecting, storage, diversion, regulation, and delivery of water used primarily for generating electricity. For Major utilities, it shall also include the cost in place of facilities used in connection with (a) the conservation of fish and wildlife, and (b) recreation."

¹⁶ 18 CFR Part 101, Instructions for Account 553.

¹⁷ *Id.*, Instructions for Account 547.

10. Because the Commission's USofA does not include accounts that clearly accommodate non-hydro renewable generating plants and associated O&M expenses, we seek input from interested entities on whether to create new accounts to accommodate these resources. If the Commission determines that non-hydro renewables should be recorded as separate generating functions, then plant and O&M accounts for each new generation function will need to be developed where appropriate. This is necessary both for the correct categorization and correct cost causation attributes of the accounts.

11. Within each item below, interested entities should specify whether the response applies to wind, solar, other, or some combination of these technologies.

Q1) Interested entities should comment on whether the Commission should establish separate plant and O&M expense accounts for each major type of non-hydro renewable plant, including separate accounts for solar, wind, and other non-hydro renewable technologies.

Q2) Interested entities should provide examples of proposed new accounts related to non-hydro renewable plant and related O&M expenses for the Commission to consider. Interested entities should also include proposed examples of the corresponding account instructions.

Q3) Creating new accounts related to non-hydro renewable plant would require reclassification of assets from existing accounts to newly created plant asset accounts. This would also require reclassification of related accumulated reserves for depreciation. In addition, there would be other impacts related to associated accumulated deferred income tax (ADIT)

balances. Finally, related O&M expenses would need to be reclassified to the newly created expense accounts. Interested entities should address the potential burden that these reclassification requirements would create.

B. Modifications to FERC Form No. 1

12. Adding new non-hydro renewable plant and related O&M expenses to the USofA would require changes to the FERC Form No. 1 to report these accounts in an organized and transparent manner. Thus, we seek input from interested entities on how the Commission could modify FERC Form No. 1 to accommodate any such changes.

Q4) We invite interested entities to submit comments regarding proposals for reporting the new accounts for non-hydro renewable plant and related O&M expenses in FERC Form No. 1 and whether new reporting schedules and footnote disclosures would be required. Interested entities should provide examples of any new reporting schedules and footnote disclosures.

Q5) We encourage interested entities to address the type of non-accounting information related to non-hydro renewable plant and related O&M expenses that could be included in the modified FERC Form No. 1 to support rate development and to provide useful information to parties who utilize the financial reports.

C. Addressing Renewable Energy Credits

13. The USofA does not provide instructions for recording the purchase, generation or use of RECs. However, for accounting purposes, RECs are analogous to sulfur dioxide

emission allowances, for which the Commission has developed accounting guidance. In Order No. 552, the Commission concluded that the sulfur dioxide emission allowances are appropriately classified as inventoriable items.¹⁸ To that end, the Commission established new inventory and expense accounts to record these emission allowances. Account 158.1 (Allowance Inventory) includes the cost of allowances owned by the utility. The instructions to Account 158.1 provide for allowances to be expensed to Account 509 (Allowances) as allowances are used.¹⁹

14. More recently, the Commission found it appropriate to apply the Order No. 552 accounting construct to the costs of RECs.²⁰ Specifically, the Commission has found that RECs should be recorded in Account 158.1 when they are purchased or generated, and then expensed to Account 509 as they are used.²¹

15. We are considering updating the instructions for allowances recorded in Accounts 158.1 and 158.2 (Allowance Withheld), and associated revenues and expenses recorded in Accounts 456 (Other Electric Revenues) and 509 to explicitly include

¹⁸ See *Revisions to Uniform Systems of Accounts to Account for Allowances under the Clean Air Act Amendments of 1990 and Regulatory-Created Assets and Liabilities and to Form Nos. 1, 1-F, 2 and 2-A*, Order No. 552, FERC Stats. and Regs. ¶ 30,967 (cross-referenced at 62 FERC ¶ 61,299).

¹⁹ See 18 CFR Part 101, General Instruction 21.

²⁰ *Ameren Illinois Co.*, 170 FERC ¶ 61,267 at P 52.

²¹ *Id.*

activities related to RECs.²² Thus, we seek input from interested entities regarding updates to existing inventory accounts to accommodate RECs.

Q6) We are considering modifying Accounts 158.1, 158.2, and 509 to include the cost of RECs and modifying Account 456 to include revenues from the sale of RECs.²³ We invite interested entities to comment on these potential modifications.

D. Assessing Rate Implications

16. It is possible that the proposed additions and modifications to the USofA and the corresponding changes to the FERC Form No. 1 could have a significant and measurable impact on rates for existing utilities. In addition to changes to the accounting and reporting systems, entities may have corresponding changes to their existing cost-of-service schedules for ratemaking purposes. For instance, entities that reclassify assets into the new non-hydro renewable accounts may need to include or exclude certain account balances from their rates to remain consistent with Commission approved rate schedules. For this reason, we seek input from interested entities.

Q7) We would like to receive input from interested entities as to how electric utilities with formula rates would be impacted if the Commission creates new plant and O&M expense accounts related to

²² Account 158.2 represents allowances withheld by the EPA to be later reclassified in Account 158.1 as they are released. Account 456 represents the account in which gross sales of RECs are to be recorded.

²³ 18 CFR Part 101, Instructions for Accounts 158.1, 158.2, 456, and 509.

non-hydro renewables. We invite interested persons to submit comments regarding how affected utilities would address any such changes.

III. Comment Procedures

17. The Commission invites interested persons to submit comments on the matters and issues proposed in this notice, including any related matters or alternative proposals that commenters may wish to discuss. Comments are due **[INSERT DATE 60 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]**, and Reply Comments are due **[INSERT DATE 90 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]**. Comments must refer to Docket No. RM21-11-000, and must include the commenter's name, the organization they represent, if applicable, and their address.

18. The Commission encourages comments to be filed electronically via the eFiling link on the Commission's web site at <http://www.ferc.gov>. The Commission accepts most standard word-processing formats. Documents created electronically using word-processing software should be filed in native applications or print-to-PDF format and not in a scanned format. Commenters filing electronically do not need to make a paper filing.

19. Commenters that are not able to file comments electronically must send an original of their comments to: Federal Energy Regulatory Commission, Secretary of the Commission, 888 First Street NE, Washington, DC 20426.

20. All comments will be placed in the Commission's public files and may be viewed, printed, or downloaded remotely as described in the Document Availability section below. Commenters on this proposal are not required to serve copies of their comments on other commenters.

IV. Document Availability

21. 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 the Commission's Home Page (<http://www.ferc.gov>). At this time, the Commission has suspended access to the Commission's Public Reference Room due to the President's March 13, 2020 proclamation declaring a National Emergency concerning the Novel Coronavirus Disease (COVID-19).

22. From the Commission's Home Page on the Internet, this information is available on eLibrary. The full text of this document is available on eLibrary in PDF and Microsoft Word format for viewing, printing, and/or downloading. To access this document in eLibrary, type the docket number excluding the last three digits of this document in the docket number field.

23. User assistance is available for eLibrary and the Commission's website during normal business hours from the Commission's Online Support at (202) 502-6652 (toll free at 1-866-208-3676) or email at ferconlinesupport@ferc.gov, or the Public Reference Room at (202) 502-8371, TTY (202) 502-8659. E-mail the Public Reference Room at public.referenceroom@ferc.gov.

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By direction of the Commission.

Nathaniel J. Davis, Sr.,
Deputy Secretary.

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