

FEDERAL ENERGY REGULATORY COMMISSION  
WASHINGTON, D.C. 20426

April 22, 2016

Technical Director  
Financial Accounting Standards Board  
401 Merritt 7, P.O. Box 5116  
Norwalk, CT 06856-5116

**Re: File Reference No. 2016-200**

The Federal Energy Regulatory Commission (Commission) staff respectfully submits comments on the proposed Accounting Standards Update, Compensation – Retirement Benefits (Topic 715): *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, issued by the Financial Accounting Standards Board (FASB) on January 26, 2016. The Commission is an independent energy regulator in the United States, charged with regulating the transmission of electricity, natural gas, and oil in interstate commerce, wholesale sales of electricity and natural gas in interstate commerce, and the reliability of the electric transmission system, among other responsibilities.<sup>1</sup> The Commission has a fundamental responsibility to ensure that rates, terms, and conditions of providing utility service are just and reasonable and not unduly discriminatory or preferential. Moreover, the Commission requires many of its regulated entities to maintain their accounts in accordance with the Commission's prescribed accounting rules for regulatory reporting.

The basic methodology the Commission uses to establish just and reasonable rates is cost-of-service ratemaking. Under cost-of-service ratemaking, rates are designed based on a utility's cost of providing service, including an opportunity for the utility to earn a reasonable return on its investment. Entities that are subject to cost-of-service ratemaking under the Commission's jurisdiction follow accounting guidance pursuant to FASB Accounting Standards Codification (ASC) Topic 980, Regulated Operations, for GAAP accounting purposes, based on the criteria specified in ASC Subtopic 980-10.

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<sup>1</sup> For additional information, see <http://www.ferc.gov/about/about.asp>.

Commission staff appreciates the FASB's efforts in proposing a revised standard to improve the presentation of net periodic pension cost and net periodic postretirement benefit cost (together as net benefit cost) in the financial statements. The proposed Accounting Standards Update seeks to revise ASC Subtopic 980-715, Regulated Operations – Compensation – Retirement Benefits, to require separation of the service cost component from the other components of net benefit cost on the income statement. The FASB believes that this approach will improve the presentation on the financial statements because it will separate operating expense (service cost) from nonoperating expense (all other components) of net benefit cost. Following this reasoning, the proposal also allows only the service cost component to be capitalized in connection with the construction or production of an asset.

Under the Commission's accounting regulations, all components of net benefit cost are considered operating in nature and recorded in the same account within the Commission's prescribed system of accounts.<sup>2</sup> Similarly, when net benefit cost is allowed in cost-of-service ratemaking for a particular entity, all of the components which make up net benefit cost are typically used. All components of net benefit cost can be capitalized if they meet the capitalization criteria under the Commission's accounting regulations and will be recovered in rates over the life of the related asset. Allowing only the service cost component eligible for capitalization will increase differences between the calculated amounts for Allowance for Funds Used During Construction according to the Commission's regulatory requirements and FASB's GAAP requirements. There will also be increased differences in associated deferred income tax balances. Therefore, we recommend that the FASB not adopt this proposal as it relates to rate-regulated entities under the Commission's jurisdiction. If this proposal is adopted, it may result in misrepresentation of the economic reality of rate-regulated entities and prove to be less useful to users of the financial statements.

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<sup>2</sup> See, 18 C.F.R. Part 101, Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provisions of the Federal Power Act (2015); 18 C.F.R. Part 201, Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act (2015); and 18 C.F.R. Part 352, Uniform System of Accounts Prescribed for Oil Pipeline Companies Subject to the Provisions of the Interstate Commerce Act (2015). See also, e.g., *Southwestern Public Service Company*, 65 FERC ¶ 62,242 (1993); *Post-Employment Benefits Other Than Pensions, Statement of Policy*, 61 FERC ¶ 61,330 (1992).

Accounting for net periodic pension cost and net periodic postretirement benefit cost is an important matter to the Commission and the rate-regulated entities under the Commission's jurisdiction. We thank you for considering our comments to this proposed Accounting Standards Update.

Sincerely,

A handwritten signature in black ink that reads "Bryan K. Craig". The signature is written in a cursive style with a large, looped 'C' at the end.

Bryan K. Craig  
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