

## INSIGHTS

## FERC Issues Notice of Inquiry on Possible Expansion of Accounting and Reporting Requirements for Renewable Energy Assets

January 21, 2021

On January 19, 2021, the Federal Energy Regulatory Commission (“FERC”) issued a notice of inquiry to explore the treatment of accounting for certain costs associated with renewable energy assets.<sup>[1]</sup> Specially, FERC seeks comments from the public on whether FERC should: (1) create new accounts in the Uniform System of Accounts (“USoA”) to include costs associated with non-hydro renewable assets such as solar, wind and biomass; (2) modify FERC Form No. 1 to reflect any accounts ultimately created; and (3) update its accounts to reflect costs related to renewable energy credits (“RECs”).

Although most generator owners are granted waiver of the USofA and FERC Form No. 1 requirements when they are granted market-based rate authority, FERC’s determination in this proceeding could have potential implications for developers and owners of solar and wind facilities that seek FERC approval of a rate schedule for reactive power or other cost-based compensation. One of the primary purposes of classifying costs in accordance with the USoA is to divide costs into accounts that are recoverable in cost-based rates. Cost recovery often is dependent on which account is used to book the equipment or expense. If the cost of the equipment or expense falls into one of the “recoverable” accounts, that cost is generally recoverable in rates. Because renewable assets do not possess accounts specifically tailored to those assets, there is regularly litigation regarding the appropriate classification of costs when a renewable developer or owner seeks cost-based recovery.

Currently, the USoA only divides generation (or production) assets into four categories—steam, nuclear, hydro, and the catch-all “other production.”<sup>[2]</sup> Due to the absence of a non-hydro renewable category, solar and wind developers and owners have been forced to use the Other Production category when classifying costs associated with those facilities. However, unlike the steam, nuclear, and hydro categories that are specifically designed to account for the unique attributes and associated equipment of these assets, the Other Production category is generic and, consequently, renewable generation owners have been forced to exercise “reasonable judgment” when determining which Other Production account should be used to book these assets.<sup>[3]</sup> For example, there are no USoA accounts that expressly capture the costs associated with solar panels, photovoltaic inverters, wind turbine blades, wind generation towers, solar and wind collection systems, and computer hardware and software required to operate wind and solar generation remotely.<sup>[4]</sup> This practice has led to inconsistency in classifying renewable resource assets in the USoA and can create difficulties when a developer or owner seeks cost-based compensation.

Similarly, the USofA accounts currently do not explicitly address the accounting treatment of expenses and revenues associated with the purchase, generation, or use of RECs that are often associated with renewable assets. FERC’s practice with respect to RECs that have been purchased or generated has been to record those RECs in Account 158.1 (Allowance Inventory) and expense them to Account 509 (Allowances).<sup>[5]</sup> This NOI seeks comments on whether FERC should clarify and codify this accounting practice by modifying the account instructions of these inventory and expense accounts to explicitly include RECs.<sup>[6]</sup>

Because FERC is considering changes to the USoA to specifically address non-hydro renewable assets, FERC recognized that any such changes will trigger a need to revise FERC Form No. 1. Absent waiver, FERC requires jurisdictional utilities to annually file FERC Form No. 1. FERC Form No. 1 sets forth the utility’s costs for the prior year that are classified in accordance with the USoA. FERC Form No. 1 is a tool for FERC and the public that gives enhanced transparency to utility costs to enable FERC to perform its statutory duty of ensuring rates are (and remain) just and reasonable. To this end, FERC seeks comment on how it should modify FERC Form No. 1 in light of any changes that it may make to the USoA.<sup>[7]</sup>

Comments in response to the NOI, including any related matters or alternative proposals that commenters may wish to discuss, are due no later than 60 days after the date of the NOI’s publication in the *Federal Register*, and reply comments are due 30 days later.<sup>[8]</sup>

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<sup>[1]</sup> *Accounting and Reporting Treatment of Certain Renewable Energy Assets*, 174 FERC ¶ 61,032 (2021) (“NOI”).

<sup>[2]</sup> NOI at P 2.

<sup>[3]</sup> *Id.*

<sup>[4]</sup> *Id.* PP 6-9.

<sup>[5]</sup> *Ameren Illinois Co.*, 170 FERC ¶ 61,267, at P 52 (2020).

<sup>[6]</sup> NOI at P 15.

<sup>[7]</sup> *Id.* P 12.

<sup>[8]</sup> *Id.* P 17.