



Financial reporting to the Federal Energy Regulatory Commission



FERC versus GAAP reporting considerations

March 2026 update

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Clients and friends,

In 2025, FERC Form 1 filers adopted FERC Order 898, requiring several new accounts for renewable and storage assets and related activities, as well as software, hardware, and communication equipment. Order 898 also codifies the accounting and accounts to use for environmental credits.

Outside of Order 898, there are no significant new FERC rulemakings or formal accounting guidance to consider. Similarly, there were few 2025 US Generally Accepted Accounting Principles (GAAP) changes significantly impacting regulated entities. However, in 2025 the Financial Accounting Standards Board (FASB) issued several Exposure Drafts that may result in new FERC reporting considerations in 2026 and future years.

We continue to incorporate your feedback to make this publication more user-friendly and to address more of the FERC-to-GAAP differences financial statement preparers commonly encounter. In this spirit, please directly **contact us** with your observations and recommendations to enhance the relevance and value of this document. We also recognize that you may identify questions regarding FERC reporting that we have not addressed in this guide. Please contact us with your questions, as we would appreciate the opportunity to collaborate with you as you work through these reporting matters.

We hope this publication is useful to your organization.

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Recent FERC activity – FERC Order 898

Summary of activity

On June 29, 2023 FERC issued **Order 898**. This Order revises FERC's Uniform System of Accounts (USofA) by adding functional detail concerning the accounting treatment of certain renewable and storage technologies and creating new accounts for renewable energy credits (RECs) — now termed Environmental Credits — as well as certain hardware, software, and communication equipment. In addition to impacts to the balance sheet, the Order has created new functionalized income statement accounts corresponding to the balance sheet changes. FERC forms have also been amended to reflect these changes. The Order became effective January 1, 2025, without retroactive adjustment to previously filed amounts. However, the 2025 balance sheet moves certain historical balances into the new accounts, and those new expense accounts must be used for amounts recorded on or after January 1, 2025. At this time, the Order only applies to electric utilities; however, FERC has indicated that updates may be made to the gas USofA in the future.

Impact

Order 898 basically results in reclassifying various property accounts within PP&E and reclassifying software expenses to new accounts within the operation and maintenance category, not resulting in a new FERC to GAAP difference. Regarding the accounting for environmental credits, some are concerned about potential current and future differences from GAAP accounting. Of particular note, FASB issued an exposure draft on the accounting for environmental credits in late 2024. This exposure draft contains certain differences with the accounting required by Order 898. Companies should continue to assess these differences to prepare for potential FERC to GAAP differences that could result. Some considerations regarding the interplay of the FASB exposure draft and Order 898 include the following:

- Order 898 is unclear as to when and how to measure any obligations to remit environmental credits, whereas FASB has proposed to record an obligation when it is required by law, statute, or ordinance at either the historical cost of credits held for the purpose of satisfying that obligation, or if insufficient credits are held, at fair value.
- Some utilities recognize the cost of environmental credits in purchased power expense when state regulators allow for recovery of such costs through a fuel clause. Order 898 explicitly prohibits such classification.
- While GAAP does not provide explicit guidance for how environmental credits should be classified, industry practice has been to classify these balances as either inventory or intangible assets, whereas FERC requires classification as inventory.

Recent FERC activity – FERC Order 898 (cont.)

Impact (cont.)

- Regarding the timing of expense recognition, under Order 898, the environmental credit is expensed once remitted or expired. In contrast, FASB has proposed immediate expensing upon acquisition if no legal obligation exists (for example, environmental credits acquired to meet voluntary net zero goals), or when it is not probable that the credit will be used to settle an obligation or disposed in an exchange transaction.
- An additional potential difference may result when a company makes the GAAP accounting policy election to capitalize internally generated environmental credits into inventory at the cost basis of producing the credits. The new exposure draft does not permit this accounting while FERC accounting is silent on this issue.

The changes prompted by Order 898 may also impact formula rates. FERC has indicated that companies may make a single-issue Section 205 filing if necessary.



Other matters to consider

Matter

On December 14, 2023, FASB issued ASU 2023-09, **Income Taxes (Topic 740): Improvements to Income Tax Disclosures**, requiring additional disclosures about income taxes, requiring disclosure of income taxes paid, and reporting additional line items in the effective rate reconciliation table. The guidance is applied prospectively (with early adoption and retrospective application permitted) and became effective for calendar year-end public business entities in the 2025 annual period. All other entities have an additional year to adopt the new guidance.

Impact

There are several differences in the accounting for income taxes in FERC Reporting as compared to GAAP, as detailed in the Appendix to this paper. Among these differences is the requirement to bifurcate income taxes between those presented "above the line" as an expense and those related to below the line activity for FERC reporting purposes (while the entire ordinary GAAP income tax provision is typically presented in one financial statement line item). FERC also requires a detailed reconciliation of reported net income to taxable income as well as analysis of Investment Tax Credits—neither of which are required by GAAP. Companies may want to consider any impact to their FERC disclosures if they include their 10-K footnotes in their Form Reporting.



Other matters to consider (cont.)

Matter

In August 2023, FASB issued ASU 2023-07, **Business Combinations—Joint Venture Formations (Subtopic 805-60): Recognition and Initial Measurement**, which outlines the accounting for newly-formed JVs. Upon formation, the newly-formed JV is to apply a new basis of accounting to all of its contributed net assets which are measured generally based on fair value after all contributions are received, as of the formation date.

Impact

While FERC does not have explicit instruction regarding the basis of accounting for newly-formed JVs, FERC Electric Plant Instruction 5 dictates that "plant acquired by purchase, merger, consolidation, liquidation, or otherwise,... shall be charged to account 102, Electric Plant Purchased or Sold" and then assigned to the appropriate Use of plant accounts. Within Plant Instruction 5, this acquisition accounting should be at cost. Any differences between the cost and fair value of the contributed net assets for GAAP purposes may need to be recorded to account 114, Electric Plant Acquisition Adjustments for FERC reporting.



Other matters to consider (cont.)

Matter

There are a significant number of accounting standards that are effective for calendar year public companies beginning in 2026.

ASU 2025-06 allows companies to begin capitalizing software upon authorization and commitment by management, and probable completion instead of making decisions based on activities or events.

ASU 2025-10 establishes the accounting for government grants received by a business entity.

Impact

The accounting for the development of software for internal use is a complex area that has challenged many regulated entities as they embark on various system upgrades or look to acquire new technologies or software applications. Some of the challenge relates to the current GAAP's use of a "waterfall" approach to software development when many companies have begun to use an "agile" approach. The ASU modernizes the accounting for software costs by outlining two requirements to begin capitalizing internal use software costs – 1) management has authorized and committed to funding the software project, and 2) it is probable that the project will be completed and the software will be used to perform the function intended. The FERC guidance around the point of capitalization of software development costs is limited (though companies should look at FERC's guidance for cloud computing solutions referenced in the Appendix to this document). As such, absent regulatory actions around the deferral of such costs, we would not expect this exposure draft to result in new FERC to GAAP differences.

Similarly, FERC has provided limited guidance for accounting for government grants and most companies leverage their GAAP accounting for FERC purposes. The ASU establishes that a government grant received should not be recognized until it meets the following criteria – 1) it is probable that the business will comply with the conditions of the grant and the grant will be received, and 2) the company meets the recognition guidance for a grant related to an asset or income. Upon adoption of ASU 2025-10, a FERC to GAAP difference may arise based on GAAP and FERC accounting elections.

FERC versus GAAP reporting

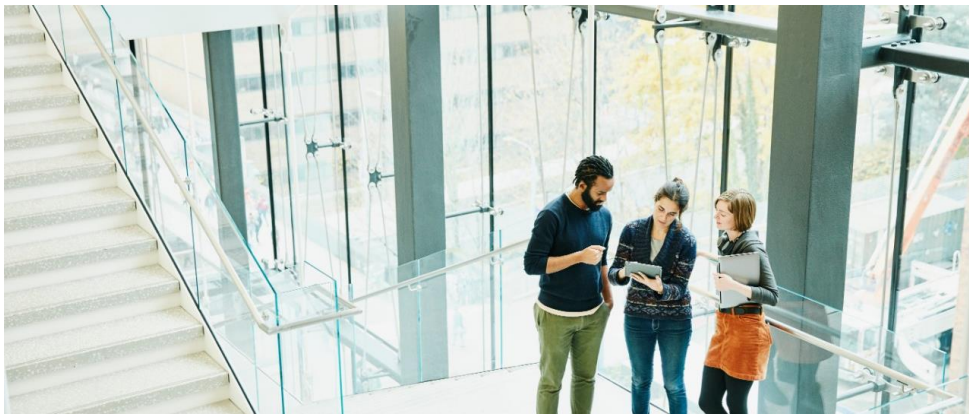
In addition to the above considerations, there are many historical FERC to GAAP differences that preparers should continue to consider. Please refer to the **Appendix** for a listing of these more common items.

Notes to the Financial Statements

The FERC Forms 1 and 2 require Notes to the Financial Statements. The Notes included in US GAAP or SEC Form 10-K financial statements are often used to help meet this requirement. However, there are certain items that FERC requires to be included, such as details for USofA No. 116, **Utility Plant Adjustments**, and the rate treatment when accounts USofA Nos. 189 and 257, **Unamortized Loss on Reacquired Debt** and **Unamortized Gain on Reacquired Debt**, are not used. These items are specifically listed in the instructions to the FERC Forms 1 and 2. Further, disclosure indicating the financial statements are prepared in accordance with the accounting requirements of the FERC, as set forth in its USofA and accounting releases, which differ from accounting principles generally accepted in the United States. Significant differences between FERC and GAAP reporting may also be disclosed as a best practice.

FERC Enforcement Report

Preparers should also consult FERC's annual enforcement report for matters that frequently arise in FERC audits. These items should be considered when preparing FERC financial statements. PwC has prepared a summary of the current year enforcement report that companies may find useful (see **[PwC 2025 FERC Enforcement Report Insights](#)**.)



PwC observation

Like GAAP financial statements, it is important that FERC disclosures are adequately robust and clear. Preparers should ensure that appropriate procedures and controls are designed over this reporting process.

Appendix

Historical FERC to GAAP differences

While not new, the following is a list of common FERC to GAAP differences that should be considered by preparers of FERC financial statements. This list is not intended to be all-inclusive and we encourage preparers to reference the FERC's Accounting Releases for other matters that should be considered.

Reference	Common difference	Available resources
General - 1	<p>Definition of probable: Threshold for recognition of regulatory assets and liabilities.</p> <p>GAAP - "Probable": The future event or events are likely to occur, Accounting Standards Codification (ASC) 450.</p> <p>FERC - "Probable": That which can reasonably be expected or believed on the basis of available evidence or logic but is neither certain nor proved, FERC Order 552. As a result, additional items may be recorded on the balance sheet for FERC purposes.</p>	<p>PwC observation</p> <p>We do not see this difference frequently in practice. Where such a difference is appropriate, internal documentation of the company's position is important, and companies may want to consider disclosure in the notes.</p>
General - 2	<p>Phase-in plans: The effect of any ASC 980 phase-in plans reflected in the GAAP financial statements (e.g., expensing of costs that were delayed or deferred for future recovery by the regulator within the GAAP financial statements) should not be included for FERC reporting purposes.</p>	<p><u>PwC utilities and power companies reporting guide Ch. 18</u>; ASC 980</p>



Historical FERC to GAAP differences (cont.)

Reference	Common difference	Available resources
General - 3	<p>Specified accounts: FERC USofA has special instructions for USofA Nos. 228.1 through 228.4. Specifically, they state that “no amounts shall be credited to these accounts unless authorized by a regulatory authority or authorities to be collected in a utility’s rate levels”. The accounts are:</p> <p>228.1, Accumulated Provision for Property Insurance 228.2, Accumulated Provision for Injuries and Damages 228.3, Accumulated Provision for Pensions and Benefits 228.4, Accumulated Provision for Miscellaneous Operating Provisions</p> <p>Companies should ensure that any liabilities recorded to the above accounts meet the FERC requirements to use these accounts.</p>	<u>FERC USofA</u>
Presentation - 1	<p>Consolidation: While application of GAAP results in consolidation of wholly-owned subsidiaries and other entities under ASC 810, FERC requires the equity method of accounting for investments, not consolidation accounting (unless, under certain circumstances where the costs associated with an entity consolidated under ASC 810 have been permitted for recovery and permission has been granted by FERC). Equity method accounting by FERC is detailed in USofA No. 123, Investments in Associated Companies; USofA No. 123.1, Investments in Subsidiary Companies; and USofA No. 418.1, Equity in Earnings of Subsidiary Companies.</p>	<p>ASC 810: In addition, this has been a common <u>FERC Enforcement Report Finding</u>.</p>
Presentation - 2	<p>Discontinued operations: While presented separately for GAAP reporting, discontinued operations and assets held for sale should not be classified separately in the FERC Form 1 or 2 financial statements.</p>	
Presentation - 3	<p>Debt issuance costs: FERC reporting standards have not adopted ASC 835-30, which requires that debt issuance costs be presented as net against the face value of the issued debt via a contra-liability account. Under the FERC USofA, issuance costs are to be accounted for within USofA No. 181, Unamortized Debt Expense, and presented within the deferred debits section of the balance sheet.</p>	<p>This has been a common <u>FERC Enforcement Report Finding</u>.</p>
Presentation - 4	<p>Restricted cash: GAAP provides guidance for the classification of certain cash balances as restricted cash. No such account exists in the FERC USofA. As a result, restricted cash should be combined with cash and cash equivalents for FERC purposes on the balance sheet.</p>	
Presentation - 5	<p>Regulatory assets/liabilities: FERC does not have a presentation requirement for the breakout of current and long-term regulatory assets/liabilities. Therefore, GAAP current and long-term regulatory assets/liabilities should be presented together for FERC reporting purposes. Additionally, while certain regulatory assets may be netted with regulatory liabilities for GAAP reporting, FERC requires regulatory assets and liabilities to be presented gross.</p>	

Historical FERC to GAAP differences (cont.)

Reference	Common difference	Available resources
Presentation - 6	Debt: While presented separately for GAAP reporting, the current and long-term portions of debt should be aggregated on a single balance sheet line item on the FERC Form 1 or Form 2 financial statements.	
Presentation - 7	Income taxes: Deferred income taxes should be recorded gross, with gross deferred tax assets recorded separately in USofA 190 and gross deferred tax liabilities recorded in the appropriate USofA 282 or USofA 283 accounts. Under GAAP, deferred tax assets and liabilities are shown net, with separate presentation of the netted current and deferred amounts.	<u>FERC Docket No. AI07-2-000</u> , See <u>Accounting Guidance Section</u>
Presentation - 8	Injuries and damages: For FERC reporting, claims liability is shown separately as Accumulated Provision for Injuries and Damages (USofA No. 228.2), which may differ from GAAP reporting.	
Presentation - 9	Unbilled revenue: For GAAP reporting, unbilled revenue may be included within Customer AR, while for FERC reporting, unbilled revenue is included in Accrued Utility Revenue (USofA No. 173).	<u>FERC USofA</u>
Presentation - 10	Alternative revenue: ASC 606 introduced a requirement to segregate revenue from alternative revenue plans from normal customer revenue. FERC does not include a similar requirement. As a result, such revenue would be combined for FERC reporting purposes.	<u>ASC 980-605-45-1</u>
Presentation - 11	Utility and non-utility: Utility and non-utility property and operations, including income taxes, are segregated for FERC reporting under the USofA, while combined for GAAP reporting.	
Presentation - 12	Purchased power: For FERC reporting, power purchase and sale transactions with an RTO/ISO are netted based on hourly volumes. There is separate netting for real-time and day-ahead markets. Under GAAP, different units of account for netting are acceptable.	<u>FERC Order 668</u>



Historical FERC to GAAP differences (cont.)

Reference	Common difference	Available resources
Revenue (Return on Equity, including Regulatory Assets) - 1	<p>Under ASC 980, certain arrangements with regulators may qualify as alternative revenue programs (ARP). In order to recognize revenue under these programs in advance of billing, specified criteria must be met. When these criteria are met, an equity return can be accrued. Occasionally, regulators will approve programs that do not meet the criteria to be accounted for as an alternative revenue program. The FERC USofA does not have any specific guidance regarding such programs. As a result, in situations where not all of the ARP criteria under GAAP are met, but future collection is deemed probable, such revenue may qualify for recognition (accrual) regardless of the GAAP conclusions — which may create a FERC to GAAP difference.</p> <p>Related to this issue are situations where a regulator allows a full (debt and equity) return on a traditional regulatory asset balance. Under GAAP, an equity return cannot be accrued outside of the ARP and AFUDC guidance. However, as FERC does not have such a prohibition, if collection is probable this full return may be accrued for FERC purposes.</p>	<u>ASC 980-605-25</u>
Leases - 1	<p>Under ASC 842, for finance leases, amortization of the right-of-use (ROU) asset must be included within depreciation expense, and interest expense should be classified with similar interest expense amounts (ASC 980-842-55-1). The USofA states that rent payments on all leases should be charged to rent expense, fuel expense, Construction Work-in-Progress (CWIP) or other appropriate accounts as they become payable. As a result, FERC would likely not include any amounts within depreciation expense or interest expense resulting in a FERC to GAAP difference.</p>	ASC 842, <u>FERC USofA</u>



The FERC accounting matters webpage includes a section providing some user-friendly question and answers on common topics. We suggest that preparers reference this document when preparing their current year FERC Form 1 and 2. The Questions and Answers can be found here: **FERC Q&A**. FERC plans to periodically update this list, so users may want to check it before each reporting period.

Historical FERC to GAAP differences (cont.)

Reference	Common difference	Available resources
Leases - 2	<p>FERC has provided an option to record operating leases that are on a balance sheet for GAAP using FERC balance sheet accounts for capital leases (USofA Nos. 101.1, 227, and 243). However, if elected, companies must also</p> <ul style="list-style-type: none"> maintain unique sub-accounts and auxiliary ledgers to separately identify and track the capitalized operating lease amounts included in the capital lease balance sheet accounts provide footnote disclosures in Notes to the Financial Statements of the applicable FERC form of any amounts included in the capital lease balance sheet accounts that relate to operating leases have strong internal controls in place so that there is no impact to the existing ratemaking treatment or practices for leases 	<u>AI-19-1-000</u>
Leases - 3	<p>Under ASC 842, easements may be accounted for as leases. However, FERC has noted that easements should be recorded to the appropriate plant accounts.</p>	<u>AI-19-1-000</u>
Leases - 4	<p>Companies should be cautious when adopting the GAAP practical expedients that allow for combining lease and non-lease elements. Because FERC requires rent expense to be on a cash basis, to the extent that amortization of non-lease costs are combined with cash rent expense for GAAP, companies should carefully assess this FERC to GAAP difference.</p>	<u>FERC USofA</u> , See General Instruction 20
Cost of removal - 1	<p>Non-ARO cost of removal should be reclassified from its regulatory liability/asset account to accumulated depreciation on the FERC Form 1 or Form 2 financial statements.</p>	<u>AI02-1-000;</u> <u>PwC utilities and power companies reporting guide Ch. 13;</u> <u>ASC 410</u>
PPE - 1	<p>Pipeline companies may recognize an impairment charge under ASC 360, in particular when the company does not qualify for the scope of ASC 980. In contrast, FERC will not typically reflect such an impairment unless directed by FERC. Consequently, a FERC to GAAP difference may result.</p>	

Historical FERC to GAAP differences (cont.)

Reference	Common difference	Available resources
Income taxes - 1	Entries recorded to accumulated deferred income tax accounts as a result of uncertain tax positions pursuant to ASC 740, <i>Income Taxes</i> , should be reversed for FERC reporting purposes. (The reclassification should affect both the balance sheet and income statement). The guidance noted to the right includes further considerations on this topic that should be considered.	<u>FERC Docket No. AI07-2-000</u> . See Accounting Guidance Section
Income taxes - 2	If the company has an ownership interest in a joint venture partnership, if allowed in the ratemaking process, the tax provision in the FERC Form 1 or Form 2 filings may be included even though a partnership is a non-taxable entity and does not record income taxes under GAAP.	<u>Inquiry Regarding Income Tax Allowances</u>
Income taxes - 3	Because partnerships are non-taxable entities, the GAAP financial statements may not include a deferred tax liability for AFUDC - Equity (Allowance for Funds Used during Construction) and an associated regulatory asset. However, when a tax provision is included in the FERC Form 1 or 2 because an income tax provision is included in the ratemaking process, these deferred tax liability balances should also be included.	
Income taxes - 4	FERC has issued several decisions rejecting the use of the separate return method for determining income tax expense when an entity files as part of a consolidated group. FERC relies on the standalone method of allocating income taxes between members of a consolidated group. Under AI93-5, use of the separate return method is specifically rejected.	<u>FERC Accounting Guidance AI93-5-000</u>
Income taxes - 5	Income Tax Receivables should be reported in USofA Nos. 143 or 146 (accounts/notes receivable) and should not be included in USofA No. 165, Prepayments . The reason for this is USofA No. 165 is included as a component of working capital and will likely be included in rate base.	This has been a common <u>FERC Enforcement Report Finding</u>
Money pool - 1	Under GAAP, companies may record money pool transactions as affiliate receivable or payable balances. In contrast, FERC Accounting Release 17 (AR-17) provides the guidance for accounting for money pool transactions. In particular, USofA Nos. 145 and 146 should be used for amounts contributed to the money pool, and USofA Nos. 233 and 234 should be used for borrowings from the money pool — unless such amounts are evidenced by notes with maturities of more than one year from issuance. If maturities are greater than one year from issuance, USofA Nos. 123, 123.1 or 223 should be used. AR-17 also requires other documentation compliance requirements that should be considered.	<u>AR-17</u>

Historical FERC to GAAP differences (cont.)

Reference	Common difference	Available resources
Benefits - 1	<p>From a FERC perspective, both the service component and the non-service component of post-retirement benefit costs should be classified as an operating expense under the USofA. This is different from GAAP presentation under ASC 715-20-45, which requires the non-service component to be shown as part of non-operating income. GAAP limits the portion of post-retirement benefit costs that could be capitalized to the service cost component. In Docket No. A118-1-000, FERC provides guidance stating that companies may elect to continue capitalizing net benefit costs or treat only the service cost component of net benefit costs as capitalizable. However, once a company makes an election, it may not be changed without approval from FERC.</p> <p>If a company were to conform its FERC accounting to GAAP, there would be no GAAP to FERC difference due to the capitalization of only the service component. However, all benefit costs should be included in operating income. This would result in a GAAP to FERC difference in presentation of the income statement.</p> <p>However, if a company elected to capitalize a portion of the total net periodic pension and post-retirement benefit costs, a FERC to GAAP difference would result (as the amount capitalized for FERC would be different than that for GAAP). Under this scenario, a company might record a regulatory asset/liability for GAAP associated with the portion of such costs that are presented as capital assets for FERC reporting. Companies should assess rate-making treatment in each jurisdiction (i.e., State and Federal). FERC would expect this GAAP regulatory asset to be included within the plant accounts unless specific permission has been received.</p>	<u>A118-1-000</u>
Purchased power - 1	<p>There is a GAAP to FERC difference related to USofA No. 555, Purchased Power. In accordance with FERC Guidance, only actual purchased power expenses are to be included. Actual purchased power expenses are defined as “the cost at point of receipt by the utility of electricity purchased for resale. It shall include, also, net settlements for exchange of electricity or power, such as economy energy, off-peak energy for on-peak energy, spinning reserve capacity, etc. In addition, the account shall include the net settlements for transactions under pooling or interconnection agreements wherein there is a balancing of debits and credits for energy, capacity, etc.” As such, any miscellaneous transmission expenses that were included in USofA No. 555, Purchased Power, should be reclassified into the Operating and Maintenance USofA Nos. 401 and 402.</p>	

Historical FERC to GAAP differences (cont.)

Reference	Common difference	Available resources
Regulatory assets and liabilities - 1	<p>There is a potential GAAP to FERC difference related to the amortization of regulatory assets/liabilities. For GAAP purposes, such amortization is often shown in Operations and Maintenance (O&M) and/or Depreciation and Amortization expenses. For FERC reporting purposes, regulatory amortization and O&M expenses related to regulatory matters (which are not specifically provided for in other accounts) are shown separately within line items “Regulatory Debits” and “Regulatory Credits.” CFR Part 101, Order No. 552-G. Regulatory Assets and Liabilities states:</p> <ul style="list-style-type: none">• “Regulatory assets would be recorded by charges to USofA No. 182.3 and credits to USofA No. 407.4. Amounts in USofA No. 182.3 would be amortized to USofA No. 407.3 over the appropriate rate recognition period.”• “Regulatory liabilities would be established by credits to USofA No. 254 and debits to USofA No. 407.3. Amounts included in USofA No. 254 would be amortized to USofA No. 407.4 over the appropriate rate recognition period.”	
Pipeline testing costs - 1	<p>In June 2020, FERC issued guidance (A120-3-000) in response to the rule issued by the Pipeline and Hazardous Materials Safety Administration (PHMSA). Under PHMSA’s rule, pipeline companies are required to assess their pipelines to determine if appropriate testing was performed and documentation retained. While these costs may be capitalized for FERC purposes, companies following ASC 980 should capture these costs as a regulatory asset, not plant.</p>	<u>A120-3-000</u>



Historical FERC to GAAP differences (cont.)

Reference	Common difference	Available resources
Cloud computing costs - 1	<p>ASC 350-40 addresses accounting for cloud computing implementation costs. Under this guidance, companies are able to capitalize certain system implementation costs associated with cloud computing arrangements following the model used for internally developed software. The guidelines for the capitalization of internal use software has been updated with ASU 2025-06 effective for calendar year public filers in 2026. FERC issued guidance that helps to clarify how companies should account for cloud computing implementation costs. This guidance conforms with GAAP regarding which costs can be capitalized, but it does lead to certain presentation differences:</p> <p>Presentation of capitalized implementation costs</p> <p>FERC stated that capitalization of such costs should be charged to utility plant (e.g., USofA No. 303, Miscellaneous Intangible Plant) regardless of whether the underlying agreement contains a license. In contrast, when a license is not present, ASC 350-40-45-2 stated that these costs should be presented in the same account as prepayments for the underlying service arrangement, which would generally classify these costs with other prepayments or miscellaneous assets. As a result, there will likely be a presentation difference between FERC and GAAP when a license is not conveyed.</p> <p>Presentation of amortization of capitalized implementation costs</p> <p>FERC indicated that the amortization of these costs should be charged to USofA No. 403, Depreciation Expense regardless of whether the underlying agreement contains a license. In contrast, if a license is not present, ASC 350-40-45-1 states that such amortization should be included in the same line item as the expense for the underlying service arrangement (e.g., generally within O&M). As a result, there will likely be a presentation difference between FERC and GAAP.</p> <p>Presentation in the Statement of Cash Flows</p> <p>The FERC order did not speak to presentation within the Statement of Cash Flows. However, we believe it is reasonable to expect that as FERC is requiring that capitalized implementation costs be classified within plant, that such payments would be reflected as an investing cash outflow. In contrast, if a license is not present, ASC 350-40-45-3 requires these payments to be classified as an operating cash outflow.</p>	<p><u>Docket No. AI20-1-000</u></p>
Statement of cash flows - 1	<p>For FERC reporting of the Statement of Cash Flows, Undistributed Earnings from Subsidiary Companies within the Operating section may increase, as these balances would eliminate in consolidation for GAAP, while FERC requires the equity method for such investments.</p>	

Historical FERC to GAAP differences (cont.)

Reference	Common difference	Available resources
Statement of cash flows - 2	For FERC, reporting of the Statement of Cash Flows, Investments in, Contributions and Advances from/to Associated and Subsidiary Companies is shown in the Investment section, as FERC requires the equity method of accounting. In contrast, these subsidiaries may be eliminated in consolidation for GAAP.	
Statement of cash flows - 3	For FERC, reporting of the Statement of Cash Flows, Amortization of Regulatory Assets is a separate line item. For GAAP, it may be shown combined with depreciation and other asset amortization.	
Statement of cash flows - 4	FERC includes all payments for leases, regardless of classification, within operating activities in the Statement of Cash Flows. In contrast, GAAP bifurcates payments between financing (for the principal portion) and operating cash flows (for the interest portion) for finance leases. As a result, for FERC presentation purposes, a reclassification from financing to operating cash flows on the Statement of Cash Flows, is likely required for principal payments made for finance leases.	



Contacts



Let's chat.

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Thank you.

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