

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 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.

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

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 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

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

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.

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 201.¹⁷

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

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

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

¹⁷ See EEI at p. 6.