

Important things to know about recent FERC audits



Introduction

CRA's Energy Practice regularly monitors FERC regulatory accounting audit activity to ensure our clients are up to date on compliance trends and are prepared to successfully meet FERC audit requirements.

We recently reviewed Final Audit Reports issued between April 2022 and May 2026 (See Table 1) by the FERC's Division of Audits and Accounting (DAA), part of FERC's Office of Enforcement and Regulatory Accounting (OERA). The scope of these audits includes accounting regulations in 18 C.F.R. Part 101, which contains FERC accounting regulations as maintained under its Uniform System of Accounts. These audits focus on regulatory accounting primarily for formula electric transmission ratesetting. We compared these results with those of our initial review on this audit scope between 2018 and 2021.

Table 1: Regulatory accounting FERC audits 2022-2026

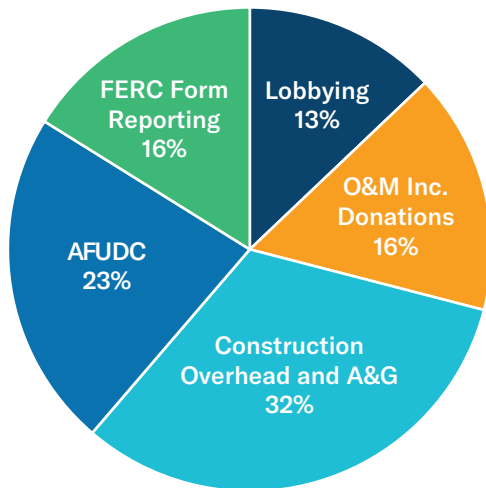
Audit target	Docket No.	Notice date	Final report date
Commonwealth Edison	FA21-5	April 21, 2021	July 23, 2023
Florida Power & Light	FA21-6	April 21, 2021	April 15, 2022
NextEra Energy Transmission	PA23-2	January 23, 2023	August 21, 2024
Northwestern Wisconsin Electric Company	FA23-3	February 21, 2023	January 26, 2024
Southern Indiana Gas & Electric Company	FA23-4	January 26, 2023	September 27, 2024
Duke Energy Corp.	FA23-6	March 21, 2023	July 25, 2025
Alliant Energy	FA23-7	March 24, 2023	November 27, 2024
Pacific Gas & Electric Company	FA23-8	April 28, 2023	September 18, 2025
SWEPCO	FA24-2	April 10, 2024	March 19, 2026
Southern Electric Generating Company	FA24-3	July 12, 2024	May 7, 2026
Alabama Power Co.	PA24-5	July 12, 2024	September 3, 2025

Current FERC audit pace is steady and robust and consistent with prior periods, with about 10 open audits at any time.

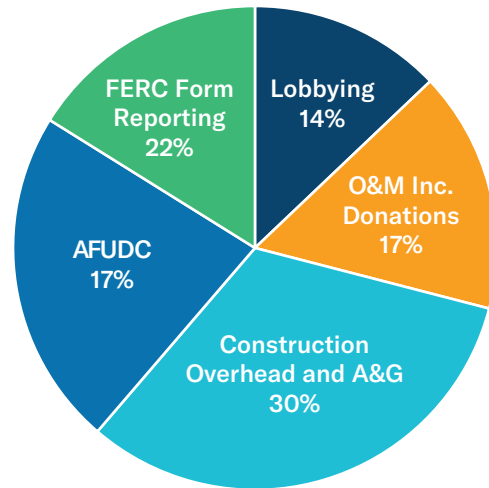
What did we find?

The charts below compare regulatory accounting findings along broad categories as shown between 2018-2021 and 2022-2026, as observed by CRA.

Common FERC audit issues 2018-2021



Common FERC audit issues 2022-2026



CRA observes the following:

- 1** Common regulatory accounting findings¹ fell into 5 key categories:
 - a. Construction Overhead and A&G Treatment
 - b. Allowance for Funds Used During Construction (AFUDC)
 - c. FERC Form 1 Reporting
 - d. Lobbying Expenses; and
 - e. Operation & Maintenance Expenses (O&M)

(See the table at the bottom of this article for category definitions)

- 2** These key categories have not changed significantly from those we observed in our 2018-2021 review of DAA audits and represent the current areas for audit results.

- 3** Construction Overhead and A&G Treatment holds the largest share, with nearly 1/3 of common findings associated with it. This category is also associated with the largest penalties and settlements (as much as \$70 million plant write-down²).

- 4** Calculation of AFUDC and FERC Form 1 Reporting continue to be prominent categories of findings after Construction Overhead and A&G Treatment.

¹ Findings in category occurring 5 or more times across the audit pool full set of findings.

² Commonwealth Edison Company, Docket Nos. FA21-5-000, FA21-5-001, Submission of Settlement Agreement and Motion Requesting Expedited Action, February 11, 2025.

What does this mean for FERC-regulated utilities?

Recent audit activity indicates that the FERC has maintained a consistent audit pace for regulatory compliance in recent years with about 10 audits open at any time.

Will your utility be next? All FERC-regulated utilities are subject to a FERC DAA regulatory accounting audit – especially larger electric transmission-owning companies, although small to mid-sized companies can also be an audit target.

The topic of overhead labor to construction continues to be a focus for FERC. As part of their compliance planning, utilities should review their current regulatory accounting policy for overhead labor costs to construction and evaluate whether they meet the FERC's standards articulated through these recent audit results. Companies that demonstrate a regulatory accounting policy that allocates labor costs to construction based on a definitive relationship to employee time will be positioned to sustain an audit and avoid financial consequences.

Keep abreast of FERC DAA audit activity and look for CRA's next publication, which will explore specific steps utilities can take now to prepare for a FERC regulatory accounting audit.

Key regulatory accounting audit finding categories

Construction Overhead/A&G Allocation – Findings typically relate to instances in which utilities capitalize labor and labor-related overhead to costs to Construction Work in Progress using a method that is not based on the amount of time employees spent supporting capital. Or utilities have incorrectly treated costs as A&G for rate recovery. Significant refunds can be ordered depending upon the length of the audit period and potential misstatement of CWIP balances.

AFUDC (Allowance for Funds Used During Construction) – AFUDC represents funds utilities use to finance construction activities and is comprised of debt and equity funds. Common findings involve improper calculation of debt or financing costs which overstate carrying costs of construction. FERC-ordered refund amounts can vary depending on the size of the accounting discrepancy to standards.

FERC Form 1 – Larger FERC-regulated electric utilities are required to file financial and operational data to the FERC in the form of FERC Form No. 1, Annual Report of Major Electric Utilities. Common findings from the FERC on this item involve instances of utilities not properly following form instructions. These findings rarely involve significant penalties or refunds.

Lobbying Expense – Utilities often incur lobbying expenses, including political donations, for such purposes as influencing public opinion to support a preferred legislative outcome. Most findings relate to instances in which utilities have booked these costs to incorrect accounts and inappropriately included them in formula rate recovery. Refunds are often ordered based on the size of the account misallocation.

Operating & Maintenance (O&M) Expenses – Audits often review the accuracy of accounting for O&M costs. Recent findings in this category include instances in which O&M expenses were recorded in incorrect accounts, resulting in certain O&M being collected from formula rates that otherwise should have been excluded. Refunds vary depending on the degree of misstatement.

About CRA's Energy Practice

Charles River Associates is a leading global consulting firm that offers strategic, economic, and financial expertise to major corporations and other businesses around the world. CRA's Energy Practice provides services to a wide range of industry clients, including utilities, ISOs, RTOs, large customers, and investors. The Energy Practice has offices in Boston, New York City, Washington DC, Toronto, London, Houston, Los Angeles, Salt Lake City, Dusseldorf, and Munich. Learn more at www.crai.com/energy.

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