



United States Department of Agriculture  
Rural Development

Rural Business-Cooperative Service • Rural Housing Service • Rural Utilities Service  
Washington, DC 20250

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TO: All Electric Borrowers  
Certified Public Accountants Auditing RUS Electric Borrowers

FROM: KENNETH M. ACKERMAN *Kenneth M. Ackerman*  
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Program Accounting and Regulatory Analysis

SUBJECT: Asset Retirement Obligations

The Federal Energy Regulatory Commission (FERC) revised its regulations and established uniform accounting and reporting for the recognition and measurement of liabilities arising from retirement and decommissioning obligations of tangible long-lived assets and related costs.<sup>1</sup> FERC added new accounts, revised some old accounts, and added or revised definitions found in the Uniform System of Accounts (USoA). The new accounts created by FERC are:

Balance Sheet:

230, Asset retirement obligations

Electric Plant Accounts:

- 317, Asset retirement costs for steam production plant
- 326, Asset retirement costs for nuclear production plant
- 337, Asset retirement costs for hydraulic production plant
- 347, Asset retirement costs for other production plant
- 359.1, Asset retirement costs for transmission plant
- 374, Asset retirement costs for distribution plant
- 399.1, Asset retirement costs for general plant

Income Statement:

- 403.1, Depreciation expense for asset retirement costs
- 411.10, Accretion expense

RUS recommends that our borrowers adopt the new accounts, revised accounts, and other changes set forth by FERC. When RUS adopted and modified the

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<sup>1</sup> 18 CFR Parts 35, 101, 154, 201, 346, and 352, Docket RM02-7-000, Order No. 631, Accounting, Financial Reporting, and Rate Filing Requirements for Asset Retirement Obligations, issued April 9, 2003. This Order is effective for fiscal years beginning on or after January 1, 2003.

FERC's system of accounts, RUS added specific sub-accounts for depreciation expense by function under account 403, Depreciation expense. RUS borrowers have been using sub-account 403.1, Depreciation expense – Steam production plant for many years. When the FERC proposed using account 403.1 to record the expense for asset retirement obligations RUS opposed this. However, the FERC's Final Rule added this account as proposed. Therefore, RUS will create Account 403.8, Depreciation Expense – Asset Retirement Obligations, for our borrowers to record depreciation expense for asset retirement obligations.

The new accounts, revised accounts and other changes brought about by the implementation of Statement of Financial Accounting Standard No. 143 (SFAS No. 143) will be reflected in the next revision to 7 CFR Part 1767, Uniform System of Accounts – Electric.

RUS is in the process of developing guidance to incorporate these new accounting requirements in Forms 7 and 12. In Part A, Statement of Operations, of Form 7, Account 403.8 will be included on Line 12, Depreciation and Amortization Expense, and Account 411.10 will be included on Line 18, Other Deductions. New plant accounts will be included on Part C, Balance Sheet, on Line 1, Total Utility Plant in Service. RUS intends to modify Line 43, Accumulated Operating Provisions, to include Account 230, Asset Retirement Obligations. Guidance for the Form 12 will follow separately.

In accordance with the FERC final rule, these changes are effective for fiscal years beginning on or after January 1, 2003. If you have any questions or if we can be of any further assistance, please contact the Technical Accounting and Auditing Staff at (202) 720-5227.

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