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Audit Evaluates Compliance with Accounting and Reporting Regulations

The Division of Audits addresses deficiencies in the AFUDC rate computation.

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On February 7, the Division of Audits of the Office of Enforcement of the Federal Energy Regulatory Commission (FERC) issued a report presenting the areas of noncompliance it identified during an audit of PNM Resources (PNMR), an energy holding company, and Public Service Company of New Mexico (PNM), a wholly owned public utility operating company subsidiary of PNMR.[1] Audit Staff evaluated PNMR and PNM's compliance with cross-subsidization restrictions on affiliate transactions; accounting, recordkeeping, and reporting requirements; the Uniform System of Accounts (USofA) for centralized service companies; preservation of records requirements for holding companies and service companies, and FERC Form No. 60 requirements. The audit covered a two-year period spanning from January 1, 2009 to December 31, 2010.

Audit Staff determined that PNM's method of computing allowance for funds used during construction (AFUDC) on construction work in progress (CWIP) was deficient. A utility must include actual prior year-end book balances for long-term debt, preferred stock, and common equity, and a 13-month average CWIP balance to derive AFUDC. A utility also must adjust AFUDC calculations at the end of the year to reflect the actual CWIP balance, and compounding is allowed, at most, on a semiannual basis. Audit Staff concluded that PNM instead applied actual prior month-end book balances to calculate AFUDC for each month and compounded its AFUDC on a monthly basis. Audit Staff also concluded that PNM committed various other calculation errors that resulted in over-accrued amounts of AFUDC on CWIP.

Audit Staff also identified other areas of noncompliance, which included (a) PNM's failure to comply with FERC's accounting guidance prohibiting companies from transferring deferred income taxes that become payable within 12 months of the balance sheet date from an accumulated deferred income tax account to a current liability account, (b) misclassification of the interest expense associated with a prior tax year payment deficiency under the Interest on Long-Term Debt account instead of the Interest Expense account, (c) failure to submit to FERC the nuclear decommissioning trust fund annual report showing the financial position and investment activities of the trust fund, (d) failure to post the high and low redispatch costs for its transmission facilities on its Open Access Same Time Information System (OASIS), and (e) improper classification of its book out transactions as energy sales transactions.

1. Docket No. FA11-7-000.

Audit Staff made a number of recommendations to address these areas of claimed noncompliance. It recommended that PNM implement revised and strengthened accounting, monitoring, and reporting procedures. It also recommended that PNM recalculate AFUDC to ensure consistency with FERC's regulations, prepare comparisons to submit to the Division of Audits, and submit corrected entries. PNM was also advised to reclassify the unrecognized tax positions and interest expense amounts into the correct accounts, post all required redispatch cost data on OASIS on a going-forward basis, and revise its 2009 and 2010 electric quarterly reports to accurately report book out transactions.

Audit Staff identified three areas of noncompliance for PNMR. First, PNMR did not adopt the USofA for centralized service companies under Part 367 of FERC's regulations and elected to continue following the USofA for public utilities under Part 101, which it followed before Part 367 was added to the regulations. PNMR elected to continue adhering to Part 101 based on its belief that the USofA under Part 367 was not materially different from Part 101. Second, Audit Staff determined that the FERC Form No. 60 filed by PNMR Services, PNMR's wholly owned subsidiary, contained several reporting errors, including improper account classifications, inconsistent reporting, and incomplete supporting schedules. Third, PNMR Services did not report five cost allocation methodologies on Schedule XXI of its 2009 FERC Form No. 60.

Audit Staff recommended that PNMR adopt the USofA for centralized service companies, perform periodic reviews to ensure compliance with Part 367, refile its 2009 FERC Form No. 60 correcting all reporting errors and omissions, and develop and implement procedures to ensure proper account classification, consistent reporting, and completion of all supporting schedules of FERC Form No. 60.

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