

Frequently asked questions: FERC reporting on SAP S/4HANA®

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As more utility and energy companies are planning for SAP S/4HANA, it's not surprising that finance, accounting, rates, and IT departments are asking questions about regulatory reporting on the new platform.

The team at Cognizant¹ has innovated solutions and optimized regulatory reporting on the SAP ERP since the mid-1990s. Based on this expertise, we've prepared this document to address some of the most immediate issues.

Whether you're already running the FERC module or have a homegrown regulatory reporting solution to functionalize your GAAP accounts, this FAQ will provide some guidance on S/4HANA's impact on regulatory reporting for utility and energy companies and the alternative approaches to FERC on S/4HANA.

To discuss S/4HANA adoption strategies and regulatory reporting models suitable for your own utility, please contact [Cognizant](#).

FERC reporting on SAP S/4HANA

Frequently asked questions

FAQ 1: What options do we have for FERC reporting on S/4HANA?

There are three primary approaches to FERC accounting and reporting for utility and energy companies on SAP S/4HANA:

1. Run the standard SAP FERC module and its period-end, derivation model as delivered.
2. Don't run the FERC module and configure S/4HANA to establish a basic transaction-based regulatory accounting model. See FAQ #7.
3. Don't run the FERC module and implement an optimized transaction-based model for better data granularity, adjustment flexibility and rate case support. The SAP-certified and patented² solution, Finance4U® Regulatory Accounting and Reporting (RAR), is designed to provide these benefits and more.

1. Cognizant acquired Utegration, a company that specialized in this, in 2022.

2. Patent No.: US 10,872,092 B2

FAQ 2: Does S/4HANA include regulatory reporting for FERC and NARUC?

Yes. At this time, S/4HANA includes the original, derivation-based regulatory reporting solution for utilities on SAP, commonly known as the “FERC module,” which our team first built for Pacific Gas & Electric in 1995.¹

SAP has not invested in regulatory solutions for utility and energy companies for decades, and as such, the FERC module runs the same in S/4HANA as it does in ECC. It derives regulatory account data from natural account data, in a batch process at period-end after the GAAP close and enables a report of expenses by function such as generation, transmission, distribution, A&G and customer accounts.

FAQ 3: What happens to our current FERC module when we migrate to S/4?

If you choose to continue running the delivered FERC module in S/4HANA, it will work the same way it does today. You'll derive FERC from GAAP data at each period-end after the close. You may see some speed improvements from being on S/4HANA, but the standard FERC module's code has not been updated for S/4HANA, nor has its functionality been modernized to take advantage of the universal journal in S/4HANA.

Challenges that many utility and energy companies experience with the delivered FERC module on ECC will persist on S/4HANA. For example, FI, CO and FERC will not reconcile, trace errors and negative flows will continue, and FERC clearing will still cause confusion if you rely on it. FERC account balances will be visible in S/4HANA's universal journal, but cost object details will not. This is because the standard FERC module posts the P&L amount but not the cost object. For that, users of the FERC module will need to continue using the FERC drilldown (transaction FERD) or build a custom cube in BW for the monthly trace table (FERC_D1).

Note that if your company uses multiple ledgers—e.g., one for FERC accounts and one for GAAP accounts—the FERC module is not ideal because you won't have the same set of documents for each account type, which causes reconciliation and reporting challenges.

FAQ 4: Will regulatory reporting run faster on S/4HANA?

Yes, if you stop using the FERC module and implement a transaction-based regulatory model. This design is inherently faster in S/4HANA because regulatory data is generated at the time transactions are entered in SAP instead of being derived after the GAAP close at period-end. You could develop your own solution using functional areas and modify the coding block to create a trial balance by regulatory account. Such homegrown solutions may not, however, provide as much cost detail as traditional derivation models do.

Yes, if you stop using the FERC module and establish an optimized transaction model with Finance4U Regulatory Accounting and Reporting (RAR). RAR is certified by SAP as integrated with S/4HANA and goes far beyond a basic transaction model using functional areas alone. See FAQ #11 for more information.

FAQ 5: Can we do regulatory reporting on S/4 without the FERC module?

Yes, if you implement a transaction-based regulatory accounting model. Note that moving from the FERC module's derivation model to a transaction model may require changes to your coding block, and depending on what solution you implement, you might actually generate less supporting data for rate cases than you have today.

1. Cognizant acquired Utegration, a company that specialized in this, in 2022.

We recommend that utility and energy companies look carefully at their current translation rules to identify any mapping from a single natural account to multiple regulatory accounts. If such translations exist, you'll need a regulatory reporting solution on S/4HANA that does more than line item amounts by natural account and functional area. A basic transaction-based model on S/4HANA—for example, one using functional areas alone—will not deliver the granularity you need without resorting to complex CO allocations, or burdening operations with additional work orders.

FAQ 6: How will S/4HANA impact our chart of accounts?

If your S/4HANA design retains the FERC module and a derivation model, your chart of accounts can remain the same. If you move to a transaction-based model, your old FERC accounts may be retired, and you'll create new attributes of GAAP accounts for FERC and store them in S/4HANA's universal journal.

For some utility and energy companies that move to a transaction model, comparison of prior years by FERC account may be challenging. To address this, our solution for regulatory financials on S/4HANA retains existing FERC accounts and populates them in real time. In this way, FERC account balances and detailed line items will be available by FERC account number in the GL in S/4HANA.

FAQ 7: What is “transaction-based” regulatory accounting in SAP?

In simple terms, transaction-based regulatory accounting means a functionalized view of utility or energy company financials as transactions are entered in SAP based on line items, and possibly without waiting until a period-end close (at which point regulatory data has traditionally been derived from GAAP or natural accounts traced to FERC, NARUC or other regulatory accounts).

In real-world terms, realizing transaction-based regulatory accounting in SAP requires some design decisions and implementation work. In both SAP ECC and S/4HANA, the generation of regulatory data based on transactions is not delivered out-of-the-box. You need to either build it or buy it.

One approach to building a solution is to configure SAP functional areas (FAs) with regulatory indicators and then to attach the appropriate FAs to each cost object in a transaction. This provides a basic, transaction-based regulatory accounting model and eliminates the need for the legacy FERC module. It does not, however, provide functionality that utility and energy companies often value, such as splitting costs to more than one regulatory account, or enabling adjustments and corrections without resorting to lump sum journal entries or opening closed accounting periods. See FAQ #9 below for more information.

Another approach to establishing transaction-based regulatory accounting in S/4HANA is to buy a packaged software solution. Our patented offering, Finance4U Regulatory Accounting and Reporting (RAR), is certified by SAP and is currently in use by many utility and energy companies in North America. Designed and built for S/4HANA, RAR runs seamlessly inside of S/4HANA and takes advantage of S/4 simplifications and the universal journal.

Note that transaction-based regulatory reporting often used to be referred to as “real-time” reporting to differentiate it from the SAP FERC module's month-end batch process. But in recent years this label has fallen out of use. See FAQ #8 for more information.

FAQ 8: What is “real-time” regulatory reporting—and does it matter?

Several years ago, “real-time regulatory reporting” was common industry shorthand for accounting designs that were distinctly different from SAP’s delivered batch model. We now refer to such designs as “transaction-based” primarily because the “real time” label turned out to be less meaningful to utility and energy companies. While accounting and rates departments wanted a more efficient process than waiting until after the month-end close, few of them want to see costs functionalized minute by minute.

In addition, there was no universal definition of “real time.” For example, the availability and completeness of regulatory data depends not only on when orders are recorded, but also on the frequency of settlements, assessments and post-allocation background jobs. It could range from a few seconds to an entire period, or somewhere in between. Given these factors, most industry professionals have dropped the emphasis on “real time.” What matters more is the granularity of transaction-based regulatory data.

FAQ 9: How do transaction-based regulatory solutions handle reversals and reposting?

Simple transaction-based solutions do not provide mass reversal and reposting. Such designs post data as each transaction occurs, so to make corrections, each document must be reversed, corrected and entered again. This means you either need to open previously closed accounting periods or—more likely—make lump sum, top-side entries that forgo traceability and valuable details for convenience.

In contrast, the traditional derivation model using the FERC module had an advantage by allowing easy reversal and reposting of regulatory data without requiring time-consuming journal entries. At Cognizant, we have retained that advantageous capability in our SAP-certified, transaction-based solution for S/4HANA by enabling customers to adjust FERC at the line-item level without touching GAAP. This provides the utmost flexibility to adjust regulatory transactions without opening closed periods—even across multiple quarters or years.

FAQ 10: What kind of regulatory reporting do we need on S/4HANA?

The answer depends in part on the complexity of your organization and on your reporting requirements. If you have a single utility or energy company in a single company code with no split percentages in your current trace table, a basic transaction-based solution on S/4HANA using functional areas alone could generate the right level of reporting detail to satisfy both your management and regulators.

On the other hand, if you have more than one company code, multiple lines of business and/or jurisdictions, shared services or other cost flow complexities, you will likely need a more sophisticated transaction-based solution to eliminate the frustrations you’ve experienced on ECC 6.0 and to take best advantage of your investment in S/4HANA. See FAQ #11 for more information.

FAQ 11: What does Cognizant recommend for FERC reporting on S/4HANA?

After working with SAP S/4HANA for many years, we’ve determined that utility and energy companies must go beyond the delivered FERC solution to make any real improvement over that offered in ECC. Running the standard FERC module in S/4HANA may work for some customers, but its inherent limitations remain.

Turning off the FERC module and configuring a basic transaction-based model can take you part of the way towards modern, transaction-based regulatory reporting. But this approach also has limitations: Regulatory data won't be very granular or in a general ledger format; the configuration won't generate full financial statements; and accounting won't be able to mass reverse and repost FERC and NARUC data.

To make truly meaningful progress for regulatory reporting in S/4HANA, utility and energy companies need to support regulatory balances with SAP controlling (CO) documents (i.e., secondary costs). The best way to do this is to establish a robust transaction-based model that delivers the following benefits:

- Allows administration and field operations to enter financial transactions in terms they understand, very efficiently, and without any knowledge of regulatory accounting
- Generates automatically the incredibly rich cost detail that rates needs to strengthen rate cases, which is often more granular than the original inputs from employees in the field
- Enables accounting to perform critical functions directly in S/4HANA, including: allocate line items to satisfy accounting rules; adjust cost objects before and after allocations, in a manner that preserves all original details; and adjust FERC and NARUC data easily
- Generates full financial statements with drilldown to regulatory line items
- Identifies all cost flows traced from start to finish—and in reverse—with drilldown to details
- Empowers rates and revenue requirements to respond to regulatory interrogatories in an even more timely and confident manner
- Creates an opportunity to minimize the use of costly third-party fixed asset solutions by translating the fixed asset subledger to regulatory accounts directly in S/4HANA
- Does not require SAP Central Finance, SLT replication or coding block changes; and, if desired, replaces the FERC module and derivation with a line item, transaction-based model

These benefits and more are delivered through Cognizant's advisory services for utility and energy company cost flow design on SAP S/4HANA, and with our SAP-certified add-on solution, Finance4U Regulatory Accounting and Reporting (RAR) for S/4HANA.

To discuss your specific regulatory reporting objectives, and to learn more about how we've helped other utility and energy companies optimize accounting on S/4HANA, please **contact us** online and we'll respond to you promptly.



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World Headquarters

300 Frank W. Burr Blvd.
Suite 36, 6th Floor
Teaneck, NJ 07666 USA
Phone: +1 201 801 0233
Fax: +1 201 801 0243
Toll Free: +1 888 937 3277

European Headquarters

280 Bishopsgate
London
EC2M 4RB
England
Tel: +44 (01) 020 7297 7600

India Operations Headquarters

5/535, Okkiam Thoraiakkam,
Old Mahabalipuram Road,
Chennai 600 096 India
Tel: 1-800-208-6999
Fax: +91 (01) 44 4209 6060

APAC Headquarters

1 Fusionopolis Link,
Level 5 NEXUS@One-North,
North Tower, Singapore 138542
Phone: + 65 6812 4000

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