July 27, 2016

980 Regulated Operations
340 Other Assets and Deferred Costs
25 Recognition

General Note: The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

General

> Effects of Regulation

> > Recognition of Regulatory Assets

980-340-25-1 Rate actions of a regulator can provide reasonable assurance of the existence of an asset. An entity shall **capitalize** all or part of an **incurred cost** that would otherwise be charged to expense if both of the following criteria are met:

a. It is probable (as defined in Topic 450) that future revenue in an amount at least equal to the capitalized cost will result from inclusion of that cost in **allowable costs** for rate-making purposes.

b. Based on available evidence, the future revenue will be provided to permit recovery of the previously incurred cost rather than to provide for expected levels of similar future costs. If the revenue will be provided through an automatic rate-adjustment clause, this criterion requires that the regulator's intent clearly be to permit recovery of the previously incurred cost.

A cost that does not meet these asset recognition criteria at the date the cost is incurred shall be recognized as a regulatory asset when it does meet those criteria at a later date.

> > Phase-In Plans

980-340-25-2 If a **phase-in plan** is ordered by a regulator in connection with a plant on which no substantial physical construction had been performed before January 1, 1988, none of the allowable costs that are deferred for future recovery by the regulator under the plan for rate-making purposes shall be capitalized for general-purpose financial reporting purposes (hereinafter referred to as financial reporting). Allowable costs that are deferred for future recovery by the regulator under the plan consist of all allowable costs deferred for rate-making purposes under the plan beyond the period in which those allowable costs would be charged to expense under generally accepted accounting principles (GAAP) applicable to entities in general.

980-340-25-3 If a phase-in plan is ordered by a regulator in connection with a plant completed before January 1, 1988, or a plant on which substantial physical construction had been performed before January 1, 1988, the following criteria shall be applied to that plan. If the phase-in plan meets all of those criteria, all allowable costs that are deferred for future recovery by the regulator under the plan shall be capitalized for financial reporting as a separate asset (a deferred charge). If any one of those criteria is not met, none of the allowable costs that are deferred for future recovery by the regulator under the plan shall be capitalized for financial reporting. The criteria to determine whether capitalization is appropriate are:

a. The allowable costs in question are deferred pursuant to a formal plan that has been agreed to by the regulator.

b. The plan specifies the timing of recovery of all allowable costs that will be deferred under the plan.

c. All allowable costs deferred under the plan are scheduled for recovery within 10 years of the date when deferrals begin.

d. The percentage increase in rates scheduled under the plan for each future year is no greater than the percentage increase in rates scheduled under the plan for each immediately preceding year. That is, the scheduled percentage increase in Year 2 is no greater than the percentage increase granted in Year 1, the scheduled percentage increase in Year 3 is no greater than the scheduled percentage increase in Year 2, and so forth.

980-340-25-4 The following Examples illustrate various circumstances that may or may not constitute phase-in plans:

a. Example 1 (see paragraph 980-340-55-9) illustrates a sale with leaseback as a capital lease.

b. Example 2 (see paragraph 980-340-55-12) illustrates a sale with leaseback as an operating lease.

c. Example 3 (see paragraph 980-340-55-15) illustrates a sale with leaseback with profit recognition accelerated.

d. Example 4 (see paragraph 980-340-55-18) illustrates the modified depreciation method.

e. Example 5 (see paragraph 980-340-55-21) illustrates deferred costs before a rate order is issued.

f. Example 7 (see paragraph 980-340-55-39) illustrates a phase-in plan for two plants completed at different times that share common facilities.

Pending Content:

Transition Date: *(P) December 16, 2018; (N) December 16, 2019* | **Transition Guidance: 842-10-65-1**

The following Examples illustrate various circumstances that may or may not constitute phase-in plans:

a. Example 1 (see paragraph 980-340-55-9) illustrates a sale with leaseback as a finance lease.

b. Example 2 (see paragraph 980-340-55-12) illustrates a sale with leaseback as an operating lease.

c. Example 3 (see paragraph 980-340-55-15) illustrates a sale with leaseback with profit recognition accelerated.

d. Example 4 (see paragraph 980-340-55-18) illustrates the modified depreciation method.

e. Example 5 (see paragraph 980-340-55-21) illustrates deferred costs before a rate order is issued.

f. Example 7 (see paragraph 980-340-55-39) illustrates a phase-in plan for two plants completed at different times that share common facilities.

> > Allowance for Earnings on Shareholder Investments Capitalized for Rate-Making Purposes

980-340-25-5 If specified criteria are met, paragraph 980-340-25-1 requires capitalization of an incurred cost that would otherwise be charged to expense. An allowance for earnings on shareholders' investment is not an incurred cost that would otherwise be charged to expense. Accordingly, such an allowance shall not be capitalized pursuant to that paragraph. The phrase *an allowance for earnings on shareholders' investment*, as used in this Subtopic, is intended to have the same meaning as the phrase *a designated cost of equity funds*, used in paragraph 980-835-30-1 , which, in specified circumstances, requires capitalization of an allowance for earnings on shareholders' investment (a designated cost of equity funds) during construction.

980-340-25-6 Paragraphs 980-340-25-2 through 25-3 require capitalization of an allowance for earnings on shareholders' investment for qualifying phase-in plans. If an allowance for earnings on shareholders' investment is capitalized for rate-making purposes other than during construction or as part of a phase-in plan, the amount capitalized for rate-making purposes shall not be capitalized for financial reporting. For the requirement to accrue a carrying charge related to the expected recovery of the investment in abandoned assets, see paragraph 980-360-35-7.