**FASB ASC (Accounting Standards Codification)**

**Subtopic 980-360, Regulated Operations – Property, Plant and Equipment**

Abandonments

*Accounting for Abandonments*

**35-1**

[When it becomes probable (likely to occur) that an operating asset or an asset under construction will be abandoned, the cost of that asset shall be removed from construction work-in-process or plant-in-service. FAS 090, paragraph 3]

**35-2**

[The entity shall determine whether recovery of any allowed cost is likely to be provided with either of the following: FAS 090, paragraph 3]

1. a.

[ Full return on investment during the period from the time when abandonment becomes probable to the time when recovery is completed FAS 090, paragraph 3 ]

1. b.

[ Partial or no return on investment during that period. FAS 090, paragraph 3 ]

**35-3**

[That determination shall focus on the facts and circumstances related to the specific abandonment and shall also consider the past practice and current policies of the applicable regulatory jurisdiction on abandonment situations. Based on that determination, the entity shall account for the cost of the abandoned plant as follows: FAS 090, paragraph 3]

1. a.

[ Full return on investment is likely to be provided. Any disallowance of all or part of the cost of the abandoned plant that is both probable and reasonably estimable (as defined in Topic 450) shall be recognized as a loss, and the carrying basis of the recorded asset shall be correspondingly reduced. The remainder of the cost of the abandoned plant shall be reported as a separate new asset. FAS 090, paragraph 3 ]

1. b.

[ Partial or no return on investment is likely to be provided. Any disallowance of all or part of the cost of the abandoned plant that is both probable and reasonably estimable shall be recognized as a loss. The present value of the future revenues expected to be provided to recover the allowable cost of that abandoned plant and return on investment, if any, shall be reported as a separate new asset. Any excess of the remainder of the cost of the abandoned plant over that present value also shall be recognized as a loss. The discount rate used to compute the present value shall be the entity's incremental borrowing rate, that is, the rate that the entity would have to pay to borrow an equivalent amount for a period equal to the expected recovery period. FAS 090, paragraph 3 ]

[ In determining the present value of expected future revenues, the entity shall consider such matters as the following: FAS 090, paragraph 3]

* 1. 1.

[ The probable time period before such recovery is expected to begin FAS 090, paragraph 3 ]

* 1. 2.

[ The probable time period over which recovery is expected to be provided. FAS 090, paragraph 3 ]

[ If the estimate of either period is a range, the guidance in Section 450-20-55 shall be applied to determine the loss to be recognized. Accordingly, the most likely period within that range shall be used to compute the present value. If no period within that range is a better estimate than any other, the present value shall be based on the minimum time period within that range. FAS 090, paragraph 3 ]

**35-4**

[The recorded amount of the new asset shall be adjusted from time to time as necessary if new information indicates that the estimates used to record the separate new asset have changed. FAS 090, paragraph 4]

[The rate order is usually viewed as the confirming event, permitting an estimate of the loss to be refined at that time. However, a loss shall not be recognized unless it is probable that a loss has occurred and the amount can be reasonably estimated. If those criteria are not met at the time of an initial rate order, the loss shall not be recognized at that time. FAS 090, paragraph 52]

**35-5**

[The estimates used to record the separate new asset include both of the following: FAS 090, paragraph 4]

1. a.

[ The determination of whether full return on investment will be provided and, if not, the probable time period before recovery is expected to begin and the probable time period over which recovery is expected to be provided FAS 090, paragraph 4 ]

1. b.

[ The amount of any probable and reasonably estimable disallowance of recorded costs of the abandoned plant. FAS 090, paragraph 4]

**35-6**

[The amount of the adjustment shall be recognized in income as a loss or gain. FAS 090, paragraph 4]

[The recorded carrying amount of the new asset shall not be adjusted for changes in the entity's incremental borrowing rate. FAS 090, paragraph 4]

**35-7**

[During the period between the date on which the new asset is recognized and the date on which recovery begins, the carrying amount shall be increased by accruing a carrying charge. The rate used to accrue that carrying charge shall be as follows: FAS 090, paragraph 5]

1. a.

[ If full return on investment is likely to be provided, a rate equal to the allowed overall cost of capital in the jurisdiction in which recovery is expected to be provided shall be used. FAS 090, paragraph 5 ]

1. b.

[ If partial or no return on investment is likely to be provided, the rate that was used to compute the present value shall be used. FAS 090, paragraph 5 ]

**35-8**

[During the recovery period, the new asset shall be amortized as follows: FAS 090, paragraph 6]

1. a.

[ If full return on investment is likely to be provided, the asset shall be amortized in the same manner as that used for rate-making purposes. FAS 090, paragraph 6 ]

1. b.

[ If partial or no return on investment is likely to be provided, the asset shall be amortized in a manner that will produce a constant return on the unamortized investment in the new asset equal to the rate at which the expected revenues were discounted. FAS 090, paragraph 6]