

## **ATTACHMENT 2**

**Accounting Standards Codification ¶980-340-25**

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## 980-340-25 Recognition

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### General

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#### > Effects of Regulation

#### > > Recognition of Regulatory Assets

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

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.

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

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**> > Relationship of Phase-In Plans and Disallowances**

**35-4** A phase-in plan is a method of rate-making intended to moderate a sudden increase in rates while providing the regulated entity with recovery of its investment and a return on that investment during the recovery period. A disallowance is a rate-making action that prevents the regulated entity from recovering either some amount of its investment or some amount of return on its investment. Section 980-360-35 specifies the accounting for disallowances of plant costs. If a method of rate-making that meets the criteria of this Subtopic for a phase-in plan includes an indirect disallowance of plant costs, that disallowance shall be accounted for in accordance with that Section. Example 6 (see paragraph 980-340-55-33) illustrates a phase-in plan with an indirect disallowance.

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**980-340-40 Derecognition**

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**General**

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**40-1** If at any time an entity's **incurred cost** no longer meets the criteria for the capitalization of an incurred cost (see paragraph 980-340-25-1), that cost shall be charged to earnings.

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**980-340-45 Other Presentation Matters**

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**General**

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**> Phase-In Plans**

**45-1** Cumulative amounts capitalized under phase-in plans shall be reported as a separate asset in the balance sheet. The net amount capitalized in each period or the net amount of previously capitalized **allowable costs** recovered during each period shall be reported as a separate item of other income or expense in the income statement. Allowable costs capitalized shall not be reported as reductions of other expenses.

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**980-340-50 Disclosure**

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**General**

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**> Recovery of Cost Without Return on Investment**

**50-1** In some cases, a regulator may permit an entity to include a cost that would be charged to expense by an unregulated entity as an allowable cost over a period of

time by amortizing that cost for rate-making purposes, but the regulator does not include the unrecovered amount in the rate base. That procedure does not provide a return on investment during the recovery period. If recovery of such major costs is provided without a return on investment during the recovery period, the entity shall disclose the remaining amounts of such assets and the remaining recovery period applicable to them.

> **Phase-In Plans**

50-2 The terms of any phase-in plans in effect during the year or ordered for future years shall be disclosed. This Subtopic does not permit capitalization for financial reporting of **allowable costs** deferred for future recovery by the regulator pursuant to a **phase-in plan** that does not meet the criteria of paragraph 980-340-25-3 or a phase-in plan related to a plant on which substantial physical construction was not completed before January 1, 1988. Nevertheless, the financial statements shall include disclosure of the net amount deferred at the balance sheet date for rate-making purposes and the net change in deferrals for rate-making purposes during the year for those plans.

> **Allowance for Earnings on Shareholders' Investment Capitalized for Rate-Making Purposes**

50-3 The nature and amounts of any allowance for earnings on shareholders' investment capitalized for rate-making purposes but not capitalized for financial reporting shall be disclosed.

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## 980-340-55 Implementation Guidance and Illustrations

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### General

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55-1 This Section provides guidance for application of this Subtopic to some specific situations, but does not address all possible applications of this Subtopic. All of the implementation guidance and illustrations assume that the entity meets the criteria in paragraph 980-10-15-2; thus, recovery of any cost is probable if that cost is designated for future recovery by the regulator.

> **Implementation Guidance**

> > **Recovery of Cost Without Return on Investment**

55-2 In some cases, a regulator may approve rates that are intended to recover an **incurred cost** over an extended period without a return on the unrecovered cost during the recovery period.