BPA Policy 212-2

Accounting for Regulatory Assets and Liabilities

Finance

Table of Contents

212-2.1 Purpose & Background

In accordance with Accounting Standards Codification (ASC) Topic 980 “Regulated Operations” certain costs or credits may be included in rates for recovery or refund over a future period and consequentially are recorded as regulatory assets or liabilities in the financial statements. As long as BPA continues to meet the following criteria, the Administrator, in his role as rate regulator, has the ability to create regulatory assets or liabilities through the rate setting process:

A. Rates are subject to approval by an independent, third-party regulator or by a governing board empowered by statute to establish rates that bind customers.

B. The rates are designed to recover the costs of regulated services.

C. It is reasonable to assume that the rates are set at levels that can be charged to and collected from customers.

Section 7(a)(1) of the Northwest Power Act, 16 U.S.C. § 839e(a)(1) empowers the Administrator to establish rates to recover the cost of regulated services and in accordance with sound business principles. Rates established by the Administrator become effective after being reviewed and confirmed by FERC.

BPA continually evaluates changes in the market, industry, contracts and the organization to affirm that it is meeting the requirements to apply ASC 980 and report regulatory assets and liabilities in the audited financial statements.

The purpose of this policy is to:

A. Provide guidance on the establishment of regulatory assets and liabilities

B. Document impacts of discontinuance of this policy as a result of no longer meeting the ASC 980 criteria

C. Provide guidance on types of eligible and ineligible costs

212-2.2 Policy Owner

BPA’s Chief Financial Officer has overall responsibility for this policy and oversees the implementation in collaboration with the Accounting Officer.

212-2.3 Applicability

This policy is applicable to Federal Columbia River Power System (FCRPS) financial statements that combine the accounts of BPA, the accounts of the Pacific Northwest generating facilities of the U.S. Army Corps of Engineers and the Bureau of Reclamation as well as the operations and maintenance costs of the U.S. Fish and Wildlife Service for the Lower Snake River Compensation Plan facilities and consolidated special purpose corporations (NIFC entities).

212-2.4 Terms & Definitions

1. **Regulatory asset:** A regulatory asset is an incurred expense that the Administrator, in his role as rate regulator, intends to recover from customers through rates in a future period.

2. **Regulatory liability:** A regulatory liability is an obligation resulting from the Administrator's decision, in his role as rate regulator, to return current receipts or revenues to customers through rates in a future period.

3. A**mortization:** The process of systematically allocating a regulatory asset to expense or a regulatory liability to revenue over time.

212-2.5 Policy

A. Approved Through Rate Case Process

If the Administrator, through a rate action, acknowledges his intent to recover a current period expense through rates in a future period, a regulatory asset will be established. Likewise, if the Administrator, through a rate action, acknowledges his intent to return current receipts or revenues to customers in a future period, a regulatory liability will be established.

The basis for a regulatory asset or liability is the rate action. Accounting treatment will follow the treatment in the rate case documentation.

B. Cost Deferral Between Rate Cases

In order for a cost to be considered for regulatory accounting treatment between rate cases, it must be an eligible cost as described within this policy and must be approved by the Administrator with a statement of his intent to recover the costs through rates in a future period.

Additional considerations include:

1. Materiality of the expenditure; BPA generally considers expenditures of $5 million or higher as material. Items less than $5 million would not normally be considered for deferral.
2. Prudency of the deferral and the related use of debt financing, if applicable
3. Common industry practice for regulated utilities
4. Anticipation of the expenditure (i.e. could not have been reasonably forecast in a rate case).
5. See Appendix A to this policy for additional decision criteria.

C. Discontinuance of Policy

If BPA no longer meets the criteria called out in the Purpose & Background section of this policy, BPA would no longer be eligible to apply the guidance in ASC 980. If this occurs, all regulatory assets and liabilities established as the result of the Administrator's rate action, that would not have been established by a non-regulated entity, will be written off to expense or revenue immediately.

212-2.6 Policy Exceptions

None.

212-2.7 Responsibilities

A. The authority for making accounting policy is vested in the Administrator and is delegated to the Executive Vice President and Chief Financial Officer (CFO).

B. BPA's CFO is delegated the authority by the Administrator to provide, on a BPA-wide basis, those financial management systems, policies, and procedures deemed necessary to keep complete and accurate accounts of operations, including all funds expended and received in connection with acquisition, transmission, and sale of electric energy and other BPA services.

C. The Accounting Officer is responsible for establishing policy, operational procedures and practices that implement reporting and accounting guidance and relevant training, ensuring that the work results conform to the established policies.

D. Accounting and Reporting Managers provide functional guidance and oversight to BPA's financial management systems and establish BPA and FCRPS requirements and reporting mechanisms, ensuring adequacy of internal controls and compliance with applicable laws, regulations, and internal directives.

E. BPA Staff and Subject Matter Experts are responsible for following this policy.

212-2.8 Standards & Procedures

Prior to pursuing a new regulatory asset or liability in either a rate case proceeding or between rate cases, Accounting should be consulted to ensure the costs are eligible, properly documented and appropriately approved.

Eligible Costs

Non-recurring material costs or revenues specifically identified and recovered in excess of one year should be deferred and treated in financial reporting in the same manner as identified in rates.

Examples of qualifying costs include:

A. Unrealized gains and losses of BPA's derivative instruments portfolio associated with purchase power and sales contracts

B. Certain settlement and litigation costs

C. Certain fish and wildlife measures

D. Impaired / discontinued capital asset projects

Ineligible Costs

Recurring costs, overheads, capital indirects, AFUDC loadings and preliminary costs are not eligible for regulatory asset treatment. BPA's primary recurring operating and maintenance expenses include items such as purchased power, depreciation and amortization, infrastructure maintenance, interest, and general and administrative costs.

Amortization/Recovery Period

Regulatory assets will be amortized in the financial accounting records over the recovery period as approved in rates or as determined and approved by the Administrator.

212-2.9 Performance & Monitoring

Please see A-123 narratives for compliance with this policy.

212-2.10 Authorities & References

A. Pacific Northwest Electric Power Planning and Conservation Act of 1980 (Northwest Power Act)

B. ASC Topic 980 "Regulated Operations"

212-2.11 Review

This policy is scheduled for review in June 2020.

212-2.12 Revision History

Version	Issue Date	Description of Change
1.0	8/19/2015	Migration of content to new policy format. Updated policy review date.
1.1	11/14/2017	Factor added to Appendix A decision analysis criteria table – *Does FERC have a role in the Administrator's deferral decision?* This was an administrative revision not subject to cross-agency review. Effective date retained from version 1.0.

212-2.13 Appendix A

Decision analysis criteria: used for determining if a cost should be capitalized or expensed. These factors are considered in determining whether ASC 980 treatment should be pursued for costs occurring between rate periods that would otherwise be expensed. Each decision should be decided on a case-by-case basis; however, these factors provide guidelines to use in the decision making process.

FACTORS	ANALYSIS
Does FERC have a role in the Administrator's deferral decision?	BPA's legal position is that FERC does not play a role in BPA deciding whether or not to defer expenses. FERC's role is generally limited to confirmation and approval of BPA's rates based on the standards in the Northwest Power Act.
Is the cost unusual, unforeseen (i.e. cost could not have been reasonably forecast in a rate case) or is it a recurring cost?	If the cost is unusual and not predictable, greater consideration should be given to pursuing regulatory asset treatment.
Is the cost material, as defined in the ASC 980 policy?	If the cost is material, greater consideration should be given to pursuing regulatory asset treatment for the cost. The ASC 980 policy provides materiality guidelines to use in this analysis.
If the cost is a settlement, does it relate to a past event?	The more the settlement relates to a past event, the more consideration should be given to expensing the cost so that future ratepayers do not have to bear the burden of prior year costs. The more an accounting treatment matches costs borne by and benefits received by ratepayers, the more it should be considered.
If the cost is a settlement, what is the timeline for settlement payout?	If the payout period is extended, more consideration should be given to deferring the costs. If the payout is immediate, more consideration should be given to expensing the cost.
Does the contract/settlement agreement provide information on whether it should be expensed or capitalized?	The contract settlement should be reviewed to see if it provides insight on whether the costs should be expensed or deferred.

Rate payer equity considerations.	Need to consider how the accounting treatment of the cost would impact rate payer equity as an objective is to strive for rate payer equity.
Rate level and stability in terms of rate impact.	Need to consider how the accounting treatment would impact rate levels and stability in terms of rate impact. One of BPA's objectives is to strive for stable rates given BPA's fixed cost and debt structure. The more an accounting treatment minimizes the frequency of rate changes or the fluctuation of rate levels, the more it should be considered.
Does the cost provide multi-year benefits?	The more that a cost provided multi-year benefits, the more it should be considered for regulatory asset treatment because it is more likely to provide a matching of costs with benefits.

ACS 980 Analvsis for Costs