

## Deferred Debits

- Financial Accounting Standard (FAS) 71 allows utilities to defer certain costs until future accounting periods. This allows smoothing of costs that are considered recoverable in rates, thus avoiding rate spikes.
- Usually regulatory approval (in Chugach's case, the Regulatory Commission of Alaska (RCA)) is required to defer these costs. This is referred to as creating a "regulatory asset" which is recorded on the utility's Balance Sheet.
- The total cost of the regulatory asset is then amortized (recognized) to the Income Statement (as an offset to expense or as an expense) in equal parts over several future accounting periods (months). The amortization period is approved by the Regulator and is typically 5 years (60 months). Some charges can be written off as a lump sum at a later date.
- Types of costs that can be deferred include Debt Acquisition Expense, Extraordinary Property Losses, Preliminary Survey and Investigation Charges (Studies), Temporary Facilities, Unamortized Loss on Reacquired Debt, and Miscellaneous Deferred Debits.
- Chugach budgets for Deferred Debit projects just as we budget for Operating and Capital projects.
- Amortization expenses are budgeted when disposition of the project is known.
- In the case of studies that have been performed, but the results not used, the total cost of the study is written off to expense at once.
- In the case of a study relating to a capital project that is subsequently undertaken, the cost of the study is included in the construction cost of the project.
- Chugach currently is carrying \$26,918,597 in deferred charges. Notable charges include software upgrades, debt restructuring, 1991 refinancing charges, transmission tower repairs, bond repurchase transaction costs, wind power study, and hydro facility relicensing costs.
- Deferred Debits that are being amortized include application software charges, fuel supply negotiations, 1991 refinancing costs, bond repurchase costs, contract negotiations and some major overhaul costs.