

Financial Accounting Standard No. 71 (FAS-71)
Accounting for the Effects of Certain Types of Regulation

- FAS 71 establishes Generally Accepted Accounting Principles (GAAP) for enterprises whose regulators have the power to approve and/or regulate the rates that enterprise may charge customers for services or products.
- An important accounting issue for regulated industries is the recovery of costs. Generally, if costs will be recovered, those costs should be capitalized as regulatory assets.
- FAS 71 requires the following conditions be met for a regulated enterprise to recognize an incurred cost as a regulatory asset:
 1. The existence of a regulator that can approve and/or regulate the rates that an enterprise can charge its customers for services or products.
 2. The regulated rates must be designed to recover the specific costs of the regulated services or products.
 3. Rates sufficient to recover incurred costs are reasonable to the ultimate consumer and likely to be collected.
- Once a regulatory asset is established, the asset is written off through amortization over a period of time designed to match the expense with the associated revenue (collected through rates set by the regulator) or benefit provided by the asset. For instance, the costs of refinancing are amortized over the life of the bonds that were refinanced.
- It is anticipated that Chugach Electric Association will be able to recover the Cooper Lake re-licensing costs in future rates. The cost of re-licensing is a necessary cost of continuing to operate the Cooper Lake Hydro facility beyond 2007.