

Deferred Debits

- Financial Accounting Standards Board pronouncement 71 allows a utility to defer and subsequently amortize (write off to expense over selected future accounting period) certain costs.
- The costs must be recoverable in rates and deferral must be approved by the regulator (in Chugach's case, the Regulatory Commission of Alaska).
- Costs that are typically deferred include studies, negotiation costs, unusual or abnormal expenses (one time expenses), financing or refinancing costs or amortization of costs mandated by the RCA (such as transmission tower repairs).
- The purpose of deferring and amortizing these costs is to "smooth" the "bottom line" earnings and also alleviate upward spikes in rates.
- A basic theory of rate making is to set rates based on a "normal" level of costs necessary to produce, transmit and distribute electric energy.
- If unusual or non recurring costs were not deferred and amortized, it is highly likely the regulator would decrease these costs when determining the revenue requirement. These costs would effectively be excluded from the revenue requirement and not recovered through rates.
- When deferring and amortizing these costs a critical factor is the amount of time chosen for the write off period.
- If possible, "matching" of the costs to an associated action (such as the life of a contract (negotiation costs were deferred) or the useful life of an asset that was repaired (such as the transmission tower that was repaired)) is most effective and carries the most credibility with the regulator when determining the revenue requirement.