

K2.4

January 19, 2012

980 Regulated Operations

715 Compensation—Retirement Benefits

25 Recognition

General Note: The Recognition Section provides guidance on the required criteria, timing, and location (within the financial statements) for recording a particular item in the financial statements. Disclosure is not recognition.

General

> Postretirement Pension Cost

980-715-25-1 This Subtopic requires that the difference between net periodic pension cost as defined in Subtopic 715-30 and amounts of pension cost considered for rate-making purposes be recognized as an asset or a liability created by the actions of the regulator. Those actions of the regulator change the timing of recognition of net pension cost as an expense; they do not otherwise affect the requirements of that Subtopic.

980-715-25-2 Example 1 (see paragraph 980-715-55-9) illustrates accounting for pensions by an employer with regulated operations.

> Other Postretirement Benefit Cost

>> Criteria for Recognizing Regulatory Assets for Postretirement Benefit Differences

980-715-25-3 For purposes of this Subtopic, other postretirement benefits refer to all forms of benefits, other than pensions, provided by an employer to retirees.

980-715-25-4 For continuing postretirement benefit plans, a regulatory asset related to Subtopic 715-60 costs shall not be recorded if the regulator continues to include other postretirement benefit costs in rates on a pay-as-you-go basis. The application of this Topic requires that a rate-regulated entity's rates be designed to recover the specific entity's costs of providing the regulated service or product. Accordingly, an entity's cost of providing a regulated service or product includes the costs provided for in Subtopic 715-60.

980-715-25-5 For a continuing postretirement benefit plan a rate-regulated entity shall recognize a regulatory asset for the difference between Subtopic 715-60 costs and other postretirement benefit costs included in the entity's rates if the entity does both of the following:

- a. Determines that it is probable that future revenue in an amount at least equal to the deferred cost (regulatory asset) will be recovered in rates
- b. Meets all of the following criteria:
 1. The rate-regulated entity's regulator has issued a rate order or issued a policy

statement or a generic order applicable to entities within the regulator's jurisdiction that allows both for the deferral of Subtopic 715-60 costs and for the subsequent inclusion of those deferred costs in the entity's rates.

2. The annual Subtopic 715-60 costs (including amortization of the transition obligation) will be included in rates within approximately five years from the date of adoption of that Subtopic. The change to full accrual accounting may take place in steps, but the period for deferring additional amounts shall not exceed approximately five years.

3. The combined deferral-recovery period authorized by the regulator for the regulatory asset shall not exceed approximately 20 years from the date of adoption of Subtopic 715-60. To the extent that the regulator imposes a deferral-recovery period for those costs provided for in Subtopic 715-60 greater than approximately 20 years, any proportionate amount of such costs not recoverable within approximately 20 years shall not be recognized as a regulatory asset.

4. The percentage increase in rates scheduled under the regulatory recovery plan for each future year shall be no greater than the percentage increase in rates scheduled under the plan for each immediately preceding year. This criterion is similar to that required for phase-in plans in paragraph 980-340-25-3(d). Recovery of the regulatory asset in rates on a straight-line basis would meet this criterion.

980-715-25-6 This guidance applies to rate-regulated entities that elect to immediately recognize their postretirement benefit transition obligation under Subtopic 715-60 as well as those entities that elect to delay the recognition of and amortize their postretirement benefit transition obligation in accordance with that Subtopic.

980-715-25-7 For discontinued plans, a regulatory asset related to Subtopic 715-60 costs shall be recorded if it is probable that future revenue in an amount at least equal to any deferred that Subtopic costs will be recovered in rates within approximately 20 years following the adoption of that Subtopic. Rate recovery during that period may continue on a pay-as-you-go basis. For purposes of this guidance, a discontinued plan is one that results in employees not earning additional benefits for future service (that is, one that has no current service costs).

>> Accounting for Regulatory Assets when Criteria Are Met in a Subsequent Period

980-715-25-8 If an entity does not initially meet the criteria established in Section 980-715-25 but meets those criteria in a subsequent period, then a regulatory asset related to Subtopic 715-60 costs shall be recognized in the period those criteria are met.