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Title: Martin Drake Power Plant Decommissioning Regulatory Asset Creation Resolution

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Attachments: 1. CSU-DrakeRegAssetRES-2023-08-01, 2. Drake Decommissioning Reg Asset Presentation, 3. Signed Resolution No. 137-23.pdf

Date	Ver.	Action By	Action	Result
10/10/2023	1	City Council	approved	Pass

Martin Drake Power Plant Decommissioning Regulatory Asset Creation Resolution

Presenter:

Tristan Gearhart, Chief Financial Officer, Colorado Springs Utilities
Travas Deal, Chief Executive Officer, Colorado Springs Utilities

Summary:

A Resolution Establishing a Regulatory Asset for Expenditures Associated with Drake Decommissioning Expenses. Colorado Springs Utilities Seeks Approval from City Council to Establish a Regulatory Asset to Record the Decommissioning and Obsolete Inventory Expenses Associated with Martin Drake Power Plant. These Costs will be Expensed Over a 10-Year Period as they are Incurred to Help Smooth the Rate Impact. With City Council Approval, the Proposed Total Regulatory Asset, Currently Estimated At \$17,900,000, Would be Established Starting in 2023 and Adjusted Through 2024 as Final Expenses are Trued Up with the Completion of the Decommissioning Project. Incurred Costs Each Year will be Amortized (Expensed) Over a 10-Year Period.

Background:

Typically, expenses are recorded in the period incurred. However, due to Utilities' regulatory operations, there is additional accounting guidance that allows regulatory accounting and the creation of a regulatory asset pursuant to Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements (incorporating ASC 980/FAS 71 - Accounting for the Effects of Certain Types of Regulation.) Accounting Standards Codification (ASC 980) is the accounting guidance used by public utilities to recover costs through rates charged to their ratepayers, make their operating benchmarks comparable to their investor-owned peer utilities, and also match their accounting to utility industry standards.

Recognition of a regulatory asset is allowed by Colorado Springs Utilities so long as:

- our rates for regulated services are established by, or are subject to approval by its own governing board empowered by statute to establish rates
- regulated rates are designed to recover the specific regulated business-type activity's costs of providing the regulated services, and
- it is reasonable to assume that rates can be charged to and collected from customers

With City Council approval, the proposed total regulatory asset, currently estimated at \$17,900,000 would be established in 2023 and contain costs associated with the decommissioning of Martin Drake starting in 2023 and continue through 2024. Costs contained in that regulatory asset would be amortized over a rolling 10-year period.

Previous Council Action:

On December 21, 2009, by Resolution No. 312-09, City Council approved a resolution to establish a similar regulatory asset for certain expenditures associated with the Southern Delivery System in order to levelize the rate impact.

Again, On March 26, 2013, through Resolution 26-13 City Council approved a resolution to establish a similar regulatory asset for debt issuance cost related to current outstanding and future debt issues.

Financial Implications:

A regulatory asset is deferred to the balance sheet. In effect, costs are capitalized and then depreciated over time. These amounts would otherwise be required to appear on Colorado Springs Utilities income statement as a current period expense. The recording of a regulatory asset allows Colorado Springs Utilities to match revenues to expenses and to smooth rate impact over a set period of time.

City Council Appointed Board/Commission/Committee Recommendation:

N/A

Stakeholder Process:

N/A

Alternatives:

Without the establishment of a regulatory asset, the annual expenses would be recorded against income in the year they occur and potentially drive short term rate increases.

Proposed Motion:

Move approval of the proposed resolution.

N/A