



Recommendation for Use of Regulatory Accounting for Nuclear Fuel, Debt and Other Costs

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NPPD Board of Directors Meeting
Customer & Support Services
Committee & Board
May 2023

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President and Chief Financial
Officer



Objective

- Review information on regulatory accounting and how it is used by the District and other cost-based rate entities.
- Explain proposed use of regulatory accounting for \$69.3 million of earmarked funds in the Revenue Fund from rate collections in prior years.
- Request Board approval for the use of regulatory accounting.

What is Regulatory Accounting?

- Because NPPD has regulated operations and cost-based rates, with Board approval, the District is allowed to use regulatory accounting to include revenues or costs in other periods.
- Regulatory accounting can help “smooth” rate impacts and allows alignment of expenses with the time the benefits are received.
 - An example for “smoothing” rate impacts is collecting outage costs for Cooper Nuclear Station over a 2-year period to keep from rates being higher in outage years and lower in non-outage years.
 - An example for collecting costs during the period customers are receiving related benefits (but will not be paid until a future date) would be decommissioning collections.
- Regulatory balance sheet accounts keeps track of:
 - what customers owe the District (regulatory assets) – like costs for other postemployment benefits for past employee service, or,
 - what the District owes customers – (regulatory liabilities) like the balance of rate stabilization funds from customers.
- Regulatory balance sheet accounts are reduced (and eventually eliminated) when:
 - customers “pay” the District for the prior period costs in rates, or,
 - the District uses prior period revenues and/or rate collections to offset costs or refund customers when setting rates.
- Regulatory assets and liabilities are on the District’s balance sheet.

Regulatory Liability for Nuclear Fuel, Debt and Other Costs

- There is \$69.3 million of earmarked funds in the Revenue Fund from rate collections from prior years for Cooper Nuclear Station (CNS).
- These funds will be used to help cover certain costs for CNS – such as unrecovered costs for nuclear fuel debt and/or remaining nuclear fuel.
- The establishment of a regulatory liability will provide greater transparency for these rate collections and the related costs to be paid for with these rate collections.
- The regulatory liability will be depleted and ultimately eliminated as revenues are recognized to cover specified nuclear costs as authorized in Board approved budgets prior to the conclusion of the decommissioning of CNS.

Financial Impact of Recommendation

- There will be no impact on the total surplus/(deficit) for 2023.
- There will be a decrease in revenues and change in net position for 2023.
- There will be a decrease in debt service coverage in 2023 due to the reduction of revenues (to establish the regulatory liability); however, the coverage is still estimated to exceed the minimum ratio set by the Board of 1.5 times.

Recommendation

- Board action will be requested at this month's board meeting, if approved, the regulatory liability will be recorded in the District's 2023 balance sheet.
- External and internal auditors and legal counsel have reviewed this recommendation.



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Questions

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