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IDAHO PUBLIC
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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AN ACCOUNTING ORDER REGARDING TREATMENT OF CERTAIN ASSET RETIREMENT OBLIGATIONS.	)	**CASE NO. IPC-E-03-11**
	)	**COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Weldon B. Stutzman, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure issued on December 3, 2003, submits the following comments.

BACKGROUND

On September 26, 2003, Idaho Power Company (Idaho Power, Company) filed an Application seeking an accounting order authorizing the Company to record regulatory assets or liabilities associated with implementation of Statement of Financial Accounting Standards (SFAS) 143. According to the Application, SFAS 143 requires utilities to recognize and account for certain asset retirement obligations in a manner different from the way Idaho Power has traditionally recognized and accounted for such costs. Specifically, if a legally enforceable asset retirement obligation (ARO) is deemed to exist an entity must measure and record the liability for the ARO on its books. The liability must be recorded at fair market value in the period in which the liability is incurred. SFAS 143 also provides that if market prices are not available, estimates of fair value can be calculated by discounting the estimated cash flows associated with the ARO to their present value at the date the liability is recorded. Idaho Power's Application asks for an accounting order authorizing the Company to (1) record, as a regulatory asset or a regulatory liability, the cumulative financial statement impact resulting from the Company's implementation of SFAS 143, and (2) record on an ongoing basis, as a regulatory asset or a regulatory liability, an amount equal to the difference between the annual SFAS 143 accretion and depreciation expenses and the annual depreciation expenses based on Commission approved depreciation rates and coal mine reclamation accruals. Idaho Power also requests confirmation by the Commission that (1) asset removal costs, in the form of negative net salvage, are currently accrued through annual depreciation expense which is recoverable in rates; (2) these costs are based on estimates of the final removal costs; and (3) such costs are trued-up for ratemaking purposes at the time the related assets are retired and the actual removal costs are determined.

DISCUSSION OF SFAS 143 AND IDAHO POWER'S APPLICATION

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS 143, Accounting for Asset Retirement Obligations, effective for fiscal years beginning after June 15, 2002. Idaho Power began implementing SFAS 143 in its 2003 fiscal year (January 1, 2003 through December 31, 2003).

The FASB issued SFAS 143 to address the inconsistencies in accounting practices for asset retirement obligations. FASB noted that obligations that meet the definition of a liability were not being recognized when incurred or the recognized liability was not consistently measured or presented. Idaho Power is required to implement SFAS 143 in order to comply with Generally Accepted Accounting Principles.

Historically, under the accounting method currently used by Idaho Power, the reasonable cost of removing a tangible long-lived asset at retirement is included in the calculation of depreciation rates and is recovered over the useful life of the asset. Because the cost of removal is included in depreciation expense, it is included in the Company's revenue requirement. In its Application, Idaho Power is not requesting any changes to its currently approved depreciation rates or any change in the level of asset removal included in the Company's revenue requirement through depreciation expense.

SFAS 143 Asset Retirement Obligations (AROs)

As noted in Idaho Power's Application, SFAS 143 requires entities to recognize and account for certain asset retirement obligations in a manner different from the way Idaho Power has traditionally recognized and accounted for such costs. Specifically, if a legally enforceable asset retirement obligation (ARO) as defined by SFAS 143[1] is deemed to exist an entity must measure and separately account and report the liability for the ARO (ARO Liability) on its books. This recognizes the entire cost of removal up-front while in ratemaking the cost of removal is included in depreciation expense over the life of the asset. The liability must be recorded at fair market value in the period in which the liability is incurred. SFAS 143 also provides that if market prices are not available, estimates of fair value can be calculated by discounting (using a credit-adjusted, risk-free interest rate) the estimated cash flows associated with the ARO to their present value at the date the liability is recorded. Idaho Power will use the expected present value method to determine its ARO Liabilities and corresponding ARO Assets (see next section re: ARO Assets). If a company has chosen to remove assets for reasons other than legal obligations, then the future costs of removing those assets do not have to be recognized under SFAS 143.

Idaho Power has determined that it will need to record AROs under SFAS 143 for certain generation assets. The Company has also identified AROs for transmission and distribution assets. However, the timing of those obligations is indeterminate and the liability cannot be measured and recorded at this time according to Idaho Power's Application. Idaho Power states that there are no AROs related to general plant assets. In addition, Idaho Power notes in its Application that the Company has an equity investment in Bridger Coal Company, which has AROs related to mining assets. Idaho Power follows the accounting prepared by PacifiCorp (Bridger Coal Company's majority owner) for Bridger Coal Company.

Idaho Power's Application understated the ARO associated with the Boardman Plant since a 10% markup for a third party to perform the asset removal was inadvertently excluded from the calculation of the cumulative effect adjustment. This is an immaterial misstatement of Idaho Power's AROs because Idaho Power's obligations related to Boardman are much smaller

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[1] According to SFAS 143, "it applies to legal obligations associated with the retirement of a tangible long-lived asset that result from the acquisition, construction, or development and (or) the normal operation of a long-lived asset, except...for certain obligations of lessees. As used in this Statement, a legal obligation is an obligation that a party is required to settle as a result of an existing or enacted law, statute, ordinance, or written or oral contract or by legal construction of a contract under the doctrine of promissory estoppel."

than those associated with the Bridger Plant. Staff expects any needed correction will be made as Idaho Power evaluates the ongoing reasonableness of its ARO obligations for financial statement presentation.

SFAS 143 ARO Assets, Depreciation and Accretion Expenses

Under SFAS 143, at the same time the ARO Liability is recorded, a corresponding and equivalent Asset is also recorded on the entity's books as part of the cost of the associated tangible asset. The ARO Asset is then depreciated over the life of the associated tangible asset. In addition, a period-to-period increase in the carrying amount of the liability (accretion expense) is added to the ARO Liability annually to account for the time value of money, so that at the time of retirement the recorded ARO Liability will be sufficient to meet the legal obligation. Any gain or loss when the actual liability is paid in the future will be recognized in the Company's accounting records. The Federal Energy Regulatory Commission, in Order No. 631 dated April 9, 2003 from Docket No. RM02-7-000 specified that jurisdictional entities would *...record the depreciation of the asset retirement costs in account 403.1, Depreciation expense for asset retirement costs, and the accretion of the liability for the asset retirement obligations in account 411.10, Accretion expense.* Idaho Power's Exhibit 2 does not reflect entries to these accounts. Instead, the Company has netted the entries for the depreciation and accretion expense with other below-the-line operating expense accounts such as account 407.3, Regulatory Debits.

Cumulative Effect at Implementation Date

Upon initial implementation of SFAS 143, entities must establish in their financial statements all of the amounts that would have been recorded had the new requirements always been in place. Idaho Power records this cumulative impact as transition entries. As part of these transition entries, Idaho Power will reverse the costs already contained in its financial statements for legally obligated removals. This is done so that the Company will not have two different removal costs (costs required by SFAS 143 and costs required for ratemaking) included in its financial statements. In addition to reversing the costs for legally obligated removals, Idaho Power has also reversed from accumulated depreciation all removal costs whether they relate to legal obligations or not and recorded these amounts as regulatory liabilities.

The initial implementation of SFAS 143 proposed by Idaho Power will create a regulatory asset for the cumulative accretion of interest on the ARO liabilities and the cumulative depreciation of the ARO assets. Idaho Power's proposed implementation would also create a regulatory liability to record the reversal of previously accrued removal costs from accumulated depreciation. If the Commission authorizes the accounting order, the total net cumulative adjustment at this time will be a regulatory liability.

Rate-Regulated Entities, Regulatory Assets and Regulatory Liabilities

SFAS 143 applies to rate-regulated entities that meet the criteria for application of FASB Statement No. 71, Accounting for the Effects of Certain Types of Regulation. SFAS 143 recognizes that differences may exist between its requirements and the treatment of AROs for regulatory purposes. SFAS 143 provides that a regulated entity subject to SFAS 71 recognize differences between the two approaches as a regulatory asset or a regulatory liability as opposed to a charge or credit to net income if the requirements of SFAS 71 are met. Idaho Power is requesting such treatment. The regulatory asset or regulatory liability will be removed at the time the related tangible long-lived asset is removed.

SUMMARY

SFAS 143 requires entities to separately account and report the liability for asset retirement obligations, capitalize the asset retirement costs, charge earnings for the depreciation of the asset and the accretion of the liability. Under SFAS 71, a public utility is permitted to record a regulatory asset or regulatory liability for differences between SFAS 143 and regulatory accounting for asset retirement obligations rather than recording such differences as a charge or credit to net income.

The Company's proposed accounting treatment will use SFAS 143 for reporting on its financial statements but retain its current methodology for ratemaking purposes. As a result, there should be no rate change, now or in the future, associated with the application of the requested accounting treatment. Neither the SFAS 143 transition entries nor the annual accounting entries will change the level of costs included in rates.

STAFF RECOMMENDATIONS

While Staff's review has identified inconsistencies in Idaho Power's Application, Staff recommends approval for Idaho Power to record, as a regulatory asset or liability, the cumulative financial statement impact resulting from the implementation of SFAS 143, and to record the ongoing annual differences between the SFAS 143 depreciation and accretion expenses and the annual depreciation expenses that are currently authorized by the Commission in depreciation rates and reclamation accruals.

Staff also recommends that the Commission require in its accounting order that Idaho Power file annually and as part of its rate case filings, all journal entries made under the requirements of SFAS 143, including documents supporting the determination of regulatory assets and liabilities and related dollar amounts. Due to the nature of these entries, Staff will be reviewing the underlying support for them during analyses of assets and depreciation. As a result, Staff recommends that the Company maintain financial records associated with these entries similar to the long-lived assets to which they relate.

Staff acknowledges that Idaho Power has a reasonable opportunity to recover prudently incurred removal costs. Staff recommends that the reasonableness of differences between actual and estimated costs should be addressed when those events occur. Staff recommends that no further confirmation be included in the Commission's accounting order.

Because these new accounting entries will not change the level of the costs included in rates, Staff is making no recommendation regarding the treatment of SFAS 143 Regulatory Assets and Regulatory Liabilities in future rate cases. If the assets and liabilities have an unanticipated affect on rates, then the ratemaking treatment should be determined at the time of a rate case.

Respectively submitted this 29th day of December 2003.

Weldon B. Stutzman
Deputy Attorney General

Technical Staff: Terri Carlock
Patricia Harms

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 29th DAY OF DECEMBER 2003, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. IPC-E-03-11, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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