



As noted in PacifiCorp's Application, SFAS 143 requires entities to recognize and account for certain asset retirement obligations in a manner different from the way PacifiCorp has traditionally recognized and accounted for such costs. Specifically, if a legally enforceable asset retirement obligation (ARO) as defined by SFAS 143<sup>1</sup> is deemed to exist an entity must measure and separately account and report the liability for the ARO (ARO Liability) on its books. Under the accounting method currently used by PacifiCorp before SFAS 143, 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 and, as a depreciation expense, is included in the Company's revenue requirement. Thus, SFAS 143 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. In its Application, PacifiCorp did not request 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.

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.

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.

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<sup>1</sup> 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."

PacifiCorp has determined that it will need to record AROs under SFAS 143 for certain generation and mining assets. The Company has also identified AROs for transmission and distribution assets. The timing of those obligations is indeterminate, however, and the liability cannot be measured and recorded at this time, according to PacifiCorp's Application. PacifiCorp stated that there are no material AROs related to general plant assets.

#### **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. Pursuant to 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. PacifiCorp'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.

The Commission approves PacifiCorp's Application to record, as a regulatory asset or liability, the cumulative financial statement impact resulting from the implementation of SFAS 143, and the ongoing annual differences between the SFAS 143 depreciation and accretion expenses and the annual depreciation and reclamation expenses that are currently authorized by the Commission in depreciation rates and reclamation accruals. The Commission also requires PacifiCorp to file annually and as part of any rate case filing all journal entries made under the requirements of SFAS 143, including documents supporting the determination of regulatory assets and liabilities and related dollar amounts.

#### **ORDER**

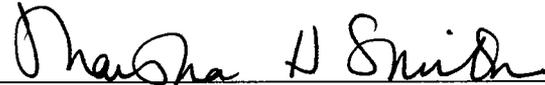
IT IS HEREBY ORDERED that PacifiCorp's Application to record regulatory assets or liabilities consistent with Statement of Financial Accounting Standards 143 is approved. PacifiCorp is directed to file annually and as part of any rate case all journal entries made under the requirements of SFAS 143, including documents supporting the determination of regulatory assets and liabilities and their amounts.

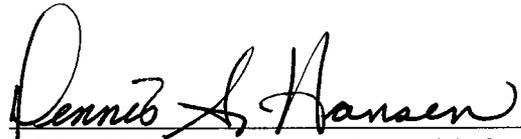
THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. PAC-E-03-8 may petition for reconsideration within twenty-one (21) days of the service date of this Order

with regard to any matter decided in this Order or in interlocutory Orders previously issued in this Case No. PAC-E-03-8. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

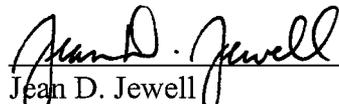
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this <sup>1<sup>ST</sup></sup>  
day of ~~November~~ <sup>December</sup> 2003.

  
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PAUL KJELLANDER, PRESIDENT

  
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MARSHA H. SMITH, COMMISSIONER

  
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DENNIS S. HANSEN, COMMISSIONER

ATTEST:

  
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Jean D. Jewell  
Commission Secretary

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