

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL
WORKING FILE

FROM: PATRICIA HARMS AND WELDON STUTZMAN

DATE: OCTOBER 22, 2003

RE: CASE NO. PAC-E-03-8 (PacifiCorp); ACCOUNTING ORDER
REGARDING TREATMENT OF CERTAIN ASSET RETIREMENT
OBLIGATIONS.

On May 27, 2003, PacifiCorp dba Utah Power & Light Company (PacifiCorp; Company) filed an Application with the Idaho Public Utilities Commission (Commission) seeking an Accounting Order authorizing the Company to record regulatory assets and/or liabilities associated with implementation of Statement of Financial Accounting Standards (SFAS) 143, Accounting for Asset Retirement Obligations. Under SFAS 143, entities are required to recognize and account for certain asset retirement obligations (AROs) in a manner different from the way that PacifiCorp and other public utilities have traditionally recognized and accounted¹ for such costs. Specifically, if a legally enforceable ARO as defined by SFAS 143 is deemed to exist, an entity must measure and record an ARO liability on its books. This change will not affect the current level of asset removal cost included in the Company's revenue requirement through depreciation expense. PacifiCorp is required to implement SFAS 143 in order to comply with Generally Accepted Accounting Principles. The Company states that nothing in the Application is intended to request any approval regarding future ratemaking treatment.

STAFF RECOMMENDATIONS

On August 22, 2003, the Commission issued a Notice of Application and Notice of Modified Procedure to process PacifiCorp's Application. During the written comment period provided by the Commission, only the Commission Staff filed written comments.

¹ Under the accounting method currently used by the Company for both financial reporting and ratemaking purposes, the cost of removing a tangible long-lived asset at retirement is included in the calculation of depreciation rates as negative salvage and is recovered over the useful life of the asset.

Staff recommends approval for PacifiCorp 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. Staff also recommends that the Commission require in its accounting order that PacifiCorp file annually and as part of its rate case filings, all journal entries made under the requirements of SFAS 143, including detailed documents supporting the determination of regulatory assets and liabilities and related dollar amounts.

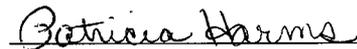
Staff acknowledges that PacifiCorp has a reasonable opportunity to recover prudently incurred removal costs. Staff recommends that the reasonableness of differences between actual and estimated costs should be addressed when those events occur. Staff recommends that no further confirmation, as requested by PacifiCorp, 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 the next rate case.

COMMISSION DECISION

Does the Commission authorize PacifiCorp to record as a regulatory asset or liability the financial statement impact resulting from the implementation of SFAS 143 as discussed above?

Does the Commission accept Staff's recommendation to require PacifiCorp to file annually and as part of its rate case filings, all journal entries made under the requirements of SFAS 143, including detailed documents supporting the determination of regulatory assets and liabilities and the calculation of the related dollar amounts?



Patricia Harms

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