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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF PACIFICORP DBA ROCKY MOUNTAIN POWER FOR APPROVAL OF AN ACCOUNTING ORDER AUTHORIZING THE DEFERRAL OF COSTS ASSOCIATED WITH COAT MINE STRIPPING ACTIVITIES.	**CASE NO. PAC-E-09-8** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Neil Price, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure in Order No. 30942 issued on November 10, 2009, submits the following comments.

BACKGROUND

On October 13, 2009, PacifiCorp dba Rocky Mountain Power ("Rocky Mountain" or "Company") filed an Application with the Idaho Public Utilities Commission ("Commission"), pursuant to *Idaho Code* § 61-524 and Rule of Procedure 52, for approval of an Accounting Order authorizing the Company to record a regulatory asset associated with the costs of removal of overburden and waste materials at its affiliate coal mines.

Rocky Mountain is a Utah corporation providing retail electric service to customers in Utah, Wyoming and Idaho with its principal place of business in Salt Lake City, Utah. Rocky Mountain, as part of the PacifiCorp organization, operates numerous coal-fired power plants throughout the western United States. The Company owns several coal mines, including the Bridger, Deer Creek and Trapper Mines ("the Mines"), that supply the coal needed to operate the coal-fired plants. Coal is extracted from the Mines using various underground and surface mining techniques. Surface mining requires the removal of soil, rock or "overburden" on seams of coal which lie near the surface.

Rocky Mountain seeks an Accounting Order from the Commission authorizing it to record as a regulatory asset the costs associated with coal mine stripping activities. The Company believes that the requested accounting treatment is necessary in order to more closely match the costs of coal stripping with the actual extraction of the coal. Recording the coal stripping costs as a regulatory asset would eliminate the expensing of coal stripping costs when incurred as required by Emerging Issues Task Force standard 04-6 ("EITF 04-6").

Rocky Mountain proposes that these costs be recorded in Account 182.3, Other Regulatory Assets, and Account 501, Fuel Expense, based on extracted coal delivery. The Company believes that customers will benefit from the modification of the customary treatment of stripping expenses under EITF 04-6 through increased intergenerational equity among customers.

STAFF REVIEW

In the mining industry, companies may be required to remove overburden and other mine waste materials to access mineral deposits. The costs of removing overburden and waste materials are referred to as "stripping costs." During the development of a mine before production begins, it is generally accepted in practice that stripping costs are capitalized as part of the depreciable cost of building, developing, and constructing the mine. Those capitalized costs are typically amortized over the productive life of the mine using the units of production method. A mining company may continue to remove overburden and waste materials, and therefore incur stripping costs, during the production phase of the mine. EITF 04-6 addresses accounting for stripping costs incurred during the production phase.

For purposes of this discussion, the definition of the production phase of a mine is as follows:

> The production phase of a mine is deemed to have begun when saleable minerals are extracted (produced) from an ore body, regardless of the level of production. However, the production phase does not commence with the removal of *de mininis* saleable mineral material that occurs in conjunction with the removal of overburden or waste material for the purpose of obtaining access to an ore body.

EITF 04-6 states that stripping costs incurred during the production phase of a mine are variable production costs that should be included in the costs of the inventory produced (that is, extracted) during the period that the stripping costs are incurred. This requirement is effective for the first reporting period in fiscal years beginning after December 15, 2005.

The Company states that they expect to incur significant stripping costs at its Bridger Coal Mine (Bridger) in 2010 for the first time since the issuance of EITF-04-6. This mine stripping activity is expected to uncover coal that will remain in the mine and be extracted in later years. If EITF-04-6 dictates the accounting for mine stripping costs at Bridger, the cost of the coal extracted in 2010 will be higher because it will include all the stripping costs while coal costs in later years will be lower because no stripping costs are included.

Rocky Mountain Power in this Application requests an Accounting Order granting the Company authority to record as a regulatory asset the production costs associated with removing mine overburden at the Company's affiliate mines. An Accounting Order would create regulatory accounts that essentially undo the impact of EITF-04-6 in order to match to costs of coal stripping with coal extraction. Staff believes approval of an Accounting Order would allow all mine stripping costs for mines serving Rocky Mountain electric customers to be accounted for in the same manner. This will correct the cost mismatch that exposes customers to the fuel cost volatility inherent in EITF-04-6 accounting treatment. It will allow the Company to continue accounting for coal stripping costs as they did prior to 2006.

Staff believes that expensing stripping costs as they are incurred results in an inherent mismatch of stripping costs with coal inventory balances. For example, activities in a given period may result in the removal of overburden at a mine with only a minor amount of coal extracted during the same period; during the next period the Company would actually extract the coal uncovered in the prior period. This misalignment of stripping costs with coal extraction could cause customers to pay for the costs of uncovering coal well before it is extracted from the mine for use in power plants to generate electricity. This mismatch of stripping costs to coal uncovered and extracted could significantly increase fuel cost variability for both the Company and its customers.

Staff believes it is reasonable to allow the Company to create a regulatory asset in FERC Account 182. 3 (Other Regulatory Assets) to account for the cumulative effect of removing mine overburden during the production phase at the affiliate mines. The stripping costs will be expensed through Account 501 (Fuel Expense) when the coal is actually extracted. Staff recommends that the Company use separate sub-accounts specifically for these entries in order to facilitate Staff's ability to audit account activity as needed. It should also be noted that any bookkeeping entries approved by the Commission in this case do not constitute concurrence by Staff on the specific ratemaking impact.

The Company did not request a carrying charge on the regulatory asset associated with mine stripping costs. Staff agrees with this position. Because this regulatory asset is created by a change in accounting procedures, Staff believes it would be inappropriate for the asset to be included in rate base or accrue a carrying charge.

Staff believes that all transactions between affiliates should be subject to greater scrutiny during audit prior to any inclusion of expenses in rates. Because of its affiliated relationship to the mines and the volume of the purchases, Staff believes the Company enjoys a position of dominance in this relationship. This may make a comparison of prices of non-affiliated market transactions inadequate as a measure of reasonableness of the Company's purchases from affiliates. As a result, even when the affiliates' costs are lower than market, Staff believes that component costs, including the deferred costs of stripping, should be examined for reasonableness for ratemaking purposes. Actual coal fuel costs allowed to be recovered in rates should be addressed in the next general rate case determining Power Supply Costs.

STAFF RECOMMENDATION

Upon review of the Company's Application and the related accounting standards issued by the Emerging Issues Task Force in EITF-04-6, it is the recommendation of Staff that the Commission approve Rocky Mountain Power's Application for an Accounting Order allowing the Company to create a regulatory asset to defer costs associated with mine stripping during coal production. These deferred costs would be amortized over the production life of the coal mine.

Staff also recommends that Rocky Mountain Power not be permitted to earn a return on the regulatory asset created by the deferral of coal mine stripping costs. The Company has not requested a return at this time.

Finally, Staff recommends conditioning language in the Commission's final Order reiterating that approval of the Company's Application for an Accounting Order allows deferral of costs and provides the opportunity for recovery. It does not constitute automatic approval of the specific dollar amounts recorded in the regulatory assets for inclusion in the calculation of the Company's revenue requirement. The actual amount to be recovered in rates should be determined in further proceedings addressing the actual costs.

Respectfully submitted this 1st day of December 2009.

Neil Price
Deputy Attorney General

Technical Staff: Terri Carlock
Cecily Vaughn

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 1ST DAY OF DECEMBER 2009, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. PAC-E-09-08, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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