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SERVICE DATE

APR 27 2005

BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of)	DOCKET NO. UE-031658
)	
PACIFICORP dba PACIFIC)	ORDER NO. 01
POWER & LIGHT COMPANY,)	
)	
Petitioner,)	
)	
For an Accounting Order)	
Regarding Treatment of)	
Environmental Remediation Costs)	ORDER APPROVING PETITION
.....)	

I. MEMORANDUM

- 1 On October 13, 2003, PacifiCorp doing business as Pacific Power & Light Company ("PacifiCorp" or "the Company") submitted a petition for an accounting order that would authorize the Company to record and defer its costs in connection with its environmental remediation program, on an ongoing basis. Specifically, the Company sought to record all such costs in FERC Account 182.3, Other Regulatory Assets. In addition, PacifiCorp requested us to find that use of a ten-year time frame would be a reasonable period over which to amortize these environmental remediation costs.

- 2 According to the Petition, PacifiCorp is complying with the requirements of the Stipulation we approved in the Company's 1999 general rate proceeding, Docket No. UE-991832. The order included the following provision:

[T] he Company shall ensure that items currently treated as regulatory assets under authorizations from other states that are proposed for inclusion in Washington at the end of the Rate Plan Period are supported by necessary accounting authorizations in Washington.

(Appendix B, Comprehensive Stipulation, Section 9.) According to the Company, the accounting treatment of environmental remediation costs is such an item, and the Company's petition sought to obtain the necessary accounting authorizations in Washington.

- 4 PacifiCorp submits that it incurs environmental remediation expenses as a legitimate cost of operating as a public utility in the state of Washington. According to the Company, these costs relate to the Company's environmental remediation program activities. PacifiCorp states that it has generally undertaken these cleanup activities to fulfill obligations imposed by state and federal environmental agencies in recent years. The Company cites in its petition, that the Commission has determined in other cases that environmental cleanup costs undertaken in order to comply with federal and state regulations are legitimate business expenses and recoverable in rates, unless such costs were shown to be imprudent in a subsequent rate proceeding. *Puget Sound Power & Light Company, Docket No. UE-911476 (April 1, 1992); see also Washington Natural Gas Company, Docket No. UG-920781, letter dated November 25, 1992 approving Accounting Petition for Environmental Remediation Program.* The Company anticipates that it will continue to seek recovery of these costs in any future ratemaking proceeding.
- 5 The Company's current accounting treatment with respect to its environmental remediation costs is to record these expenditures, by project, as they are incurred. Then, on a quarterly basis, these accumulated environmental costs are deferred as a regulatory asset and amortized over a ten-year period. PacifiCorp began recording these costs to FERC Account 182.3, Other Regulatory Assets, in January 1991. In accordance with financial accounting standards, the Company is also required to record a loss contingency if it is probable that a liability has been incurred or an asset has been impaired and the amount of loss can be reasonably estimated. *See Statement of Financial Accounting Standards No. 5 and related FASB Interpretation*

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No. 14. As of March 31, 2003, and June 30, 2003, the total Company balances of this account were \$8,115,339 and \$7,431,136, respectively.

- 6 PacifiCorp seeks Commission authority to record the Company's current expenditures for environmental remediation and defer these costs on an ongoing basis, consistent with the Company's current practice.
- 7 The petition acknowledges that the Company is not requesting any determination regarding future ratemaking treatment of these costs for which deferred accounting treatment is requested. The Company will seek recovery of these remediation costs in future rate case proceedings.
- 9 The Company currently amortizes its deferred environmental remediation costs over a ten-year period. PacifiCorp submits that this is a reasonable period over which to amortize these costs based on the continuing nature of these charges and the Company's desire to avoid significant rate fluctuations as a result of substantial expenditures during a relatively short time period. Accordingly, PacifiCorp requested that we find use of a ten-year time frame to be a reasonable period over which to amortize these environmental remediation costs for later recovery in rates.

II. DISCUSSION

- 10 The Company proposed to include this accounting authorization as part of its most recent general rate proceeding, Docket No. UE-032065. In that proceeding, the Company, Staff and Natural Resources Defense Council presented a Settlement Agreement which contained the following provision:

c. Environmental Remediation. The Parties recommend that the Commission issue an accounting order authorizing the Company to record and defer costs prudently incurred in connection with its environmental remediation program, on an ongoing basis.

Costs eligible for such accounting treatment shall include only those amounts relating to work of outside vendors and contractors for investigation and feasibility studies, sampling, evaluation, monitoring, materials, remediation, removal, disposal and post-remediation work, and do not include costs related to Company personnel or legal costs. In addition, the Parties request the Commission find that ten years is a reasonable period over which to amortize these environmental remediation costs.

- 11 In our Order No. 06 in that proceeding, we declined to accept the proposed accounting treatment for environmental remediation, noting "the questions of the proper accounting treatment for these costs are currently before us in separate, unconsolidated dockets." *Order No. 06*, ¶ 63. We thus deferred the decision to the present docket and, if necessary, to a future rate proceeding of the Company. *Id.*
- 12 In subsequent proceedings following Order No. 06, Staff has determined that adequate support exists for the accounting treatment proposed by the Company, subject to several modifications proposed by Staff. These modifications are as follows:
 - a. Projects covered under insurance settlements and paid through PERCO, a PacifiCorp subsidiary, will not be included for regulatory accounting and ratemaking purposes. The Company may file a petition for appropriate accounting treatment of additional costs not covered by insurance or payments from other parties or residual funds, if any.
 - b. Additional costs of existing projects expected to exceed \$3 million system-wide, and incurred from October 13, 2003, the date the petition was submitted, through Fiscal Year 2005 (the twelve months ending March 31, 2005) will be deferred and amortized over the ten year

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period as requested by the Company. These costs subject to deferral will include only those amounts paid to outside vendors or contractors and will not include internal employee and legal costs.

c. For new projects costs incurred after March 31, 2005, the following will apply:

- (i) No PacifiCorp internal employee and legal costs shall be included in such costs. Only payments to third-party contractors performing the clean-up work are eligible for inclusion.
- (ii) Only major projects—those expected to involve a total Company expenditure of more than \$3 million system-wide such as those involving Super Fund sites—will require an authorizing order from the Commission, to be eligible for deferral treatment.
- (iii) Non-major projects costs net of insurance or third party recoveries shall be expensed and will be considered for recovery in rates on the basis of a representative level of expenditures or other appropriate treatments, in a general rate proceeding.

d. Deferred costs shall be reduced by insurance proceeds or payments from other responsible parties. The Company will normalize the tax benefits associated with all deferred costs.

13 In addition, Staff proposes that the Company satisfy certain reporting requirements with respect to environmental remediation expenditures. Specifically, Staff proposes that the Company shall submit Semi-Annual Environmental Remediation Reports including the following:

- a. Regulatory Environmental Assets through March 31, 2005, authorized under b. above: beginning balance, amortization, and ending balance, with legal and Company personnel costs identified separately.
- b. Environmental Costs after March 31, 2005, authorized under c. above:
 - (i) For major projects (for which deferral authorization order for each project would be necessary): beginning balance, annual activity, and ending balance.
 - (ii) For non-major projects: annual activity.

The due date of the reports shall coincide with the due dates for the Company's quarterly results of operations. The first report will be submitted no later than May 15, 2005.

- 14 Subject to these modifications and reporting requirements, Staff recommends that the Company's request to defer its environmental remediation costs as proposed be authorized.
- 15 We find the Company's requested accounting treatment for environmental remediation expenditures, as modified in the manner proposed by Staff, to be reasonable. The reporting requirements proposed by Staff are reasonable for Staff to be able to monitor the Company's expenditures and amounts deferred under this order.
- 16 Accepting this accounting treatment does not determine whether the Company was prudent in incurring these expenditures, nor does it determine the appropriate ratemaking treatment of these costs.
- 17 The Commission has yet to determine a reasonable inter-jurisdictional cost allocation methodology for the Company, and the Commission's determination of that ratemaking issue will affect the level of environmental

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remediation costs allocable to Washington and subject to this accounting treatment. A determination of a reasonable inter-jurisdictional cost allocation methodology is expected to be made in the Company's next general rate proceeding.

III. FINDINGS OF FACT

- 16 (1) PacifiCorp is an electrical company and a public service company in the state of Washington under RCW 80.04.010, and is subject to the jurisdiction of the Commission with respect to its rates, services, and accounting practices.
- 17 (2) On October 13, 2003, PacifiCorp submitted a petition for an accounting order that would authorize the Company to record and defer costs prudently incurred in connection with its environmental remediation program, on an ongoing basis.
- 18 (3) The accounting treatment requested by PacifiCorp, as modified in the manner proposed by Staff, is reasonable and should be approved. The reporting requirements proposed by Staff in connection with the requested accounting treatment are also reasonable, and should be approved.

IV. ORDER

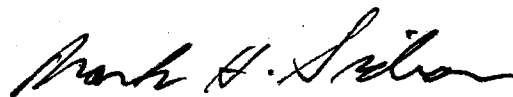
- 19 (1) The Commission authorizes the Company to record and defer costs prudently incurred in connection with its environmental remediation program in the manner prescribed in this Order. No environmental remediation costs incurred prior to October 13, 2003, the date the petition was filed, shall be deferred. The level of environmental remediation costs allocable to Washington and subject to this

accounting treatment shall be consistent with the inter-jurisdictional cost allocation methodology then in effect for the Company.

- 20 (2) The Company shall be required to periodically report on its environmental remediation expenditures, in the manner prescribed in this Order.
- 21 (3) The Commission's authorization is for accounting purposes only and does not alter or amend the present rates of PacifiCorp. The prudence of these costs will be evaluated in a subsequent proceeding, and acceptance of the accounting treatment of these costs shall not be construed as acquiescence in any estimate or determination of costs claimed or asserted.
- 22 (4) Nothing herein shall be construed to waive or otherwise impair the jurisdiction over the rates, services, accounts and practices of PacifiCorp.
- 23 (5) The Commission retains jurisdiction to effectuate the provisions of this Order.

DATED at Olympia, Washington, and effective this 27th day of April, 2005.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION



MARK H. SIDRAN, Chairman



PATRICK J. OSHIE, Commissioner