

Agenda Date: April 27, 2005
Item No.: A1

Docket: UE-031658

Company Name: PacifiCorp

Staff: Thomas Schooley, Regulatory Analyst
Roland Martin, Regulatory Analyst
Christian Ward, Regulatory Analyst

Recommendation

Approve PacifiCorp's petition for an accounting order regarding treatment of environmental remediation costs as modified in the staff memo.

Background

On October 13, 2003, PacifiCorp doing business as Pacific Power & Light Company ("PacifiCorp" or "the Company") filed a petition for an accounting order that would authorize the Company to record and defer costs incurred in connection with its environmental program on an ongoing basis. Specifically, the Company sought to record all such costs in FERC Account 182.3, Other Regulatory Assets for amortization over a ten-year time frame. According to the petition, the proposed accounting treatment reflects PacifiCorp's current decade-long practice and is consistent with previous ratemaking determinations in other states where PacifiCorp has utility operations. According to the petition, the recovery of the deferred environmental remediation costs has not been disallowed in those states. However, the petition is not seeking approval regarding future ratemaking treatment of these costs but the Company will seek consideration of these costs in its next Washington general rate proceeding.

According to the petition, PacifiCorp is complying with the requirements of the Stipulation approved in the Company's 1999 general rate proceeding in Docket No. UE-991832. The approved stipulation provided that "...the Company shall ensure that items currently treated as regulatory assets under authorization 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.*

In its general rate case in Docket No. UE-032065 filed subsequent to the 1999 general rate proceeding, the Company proposed for ratemaking purposes the environmental costs as accounted for in the petition. In that proceeding, the Company, Staff and Natural Resources Defense Council presented a settlement agreement that

recommended issuance of an accounting order authorizing the Company to record and defer specifically defined environmental remediation costs, on an ongoing basis, and amortize such costs over a ten-year period. The Commission judged that the settlement agreement proposed treatment lacked adequate support and therefore, decided to defer decision to the present docket and if necessary to a future rate proceeding, precluding neither the accounting treatment requested in the settlement agreement nor the future recovery of those costs. *Docket No. 032065, Order No.6, ¶63.*

Discussion:

In subsequent reviews and discussions following Order No. 06, Staff and the Company agree to several clarifications and modifications. These revisions include the following:

- 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 period as requested by the Company. The amounts subject to deferral shall exclude internal employee and legal costs.
- c) For new project 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 SuperFund sites) will require an authorizing order from the Commission to be eligible for deferral treatment.
 - (iii) Non-major project 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.
- e) In addition, for monitoring purposes, the Company will submit semi-annual environmental remediation reports including the following:
 - a. Deferred costs from October 13, 2003, the date of the petition through March 31, 2005: beginning balance, amortization, and ending balance, with Company internal personnel and legal costs identified separately.
 - b. Environmental Costs after March 31, 2005: (i) For major projects (for which a deferral authorization order for each project will 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.

Comments were received from the Industrial Customers of Northwest Utilities (ICNU) and Public Counsel. Both were concerned about potential retroactive ratemaking aspects of the original proposal. The modifications presented in the recommendation alleviate those concerns.

Conclusion:

Subject to the above revisions and reporting requirements, Staff concludes that the requested accounting for the Company's environmental remediation program expenditures is reasonable and consistent with the Commission's prior similar authorizations and orders. Therefore, Staff recommends approval of the Company's request as modified.