

BEFORE THE WASHINGTON STATE
UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of)	DOCKET NO. UE-031878
)	
PACIFICORP d/b/a PACIFIC)	ORDER NO. 01
POWER & LIGHT COMPANY,)	
)	
Petitioner,)	
)	ORDER AUTHORIZING
For an Accounting Order Regarding)	PETITION
Treatment of Pension Liability)	
.....)	

I. MEMORANDUM

- 1 On November 17, 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 on an ongoing basis, as a regulatory asset, an amount equal to the pretax charge against equity that would otherwise be necessitated by the recognition of the Company’s Additional Minimum Liability under Financial Accounting Standards (“FAS”) 87, relating to pension liability. According to the Petition, such an order would have no effect on the level of pension expense included in the Company’s cost of service.

- 2 The accounting treatment sought in the Petition reflects the Company’s current practice with respect to the recognition of its Additional Minimum Liability and is represented to be consistent with approval received from commissions in other states where PacifiCorp has utility operations. The Petition is not intended to request approval regarding future ratemaking treatment of the Company’s pension costs.

- 3 In accordance with FAS 87, an Additional Minimum Liability must be recognized if the Accumulated Benefit Obligation (“ABO”) for an employer’s pension plan exceeds the fair value of plan assets by more than the amount

currently recorded as the pension fund liability (or the Unfunded Accrued Pension Cost Liability). The ABO is the present value of the plan's accrued benefits without pay projections.

- 4 PacifiCorp's petition explains that declining equity markets reduce the value of the assets held in trust to meet pension obligations, while lower interest rates increase the benefit obligation of the Company, since the present value of the Company's future benefit obligation to its employees increases with lower interest rates. According to the actuary's calculations, the ABO, as of March 31, 2003, exceeded the fair value of plan assets by \$339 million, whereas the Unfunded Accrued Pension Cost Liability was only \$61 million. This difference was recognized by recording an Additional Minimum Liability. The Additional Minimum Liability was partially offset by recording an Intangible Asset to the extent allowed under FAS 87 and a charge to Accumulated Other Comprehensive Income ("AOCI") related mainly to unallocated costs. AOCI is a separately identified component of shareholders' equity. The remaining amount was recorded as a regulatory asset.
- 5 In the absence of regulatory authorization permitting alternative accounting treatment, recognition of the remaining amount would have required the Company to record a greater charge to AOCI. Absent approval of this accounting petition in Washington, PacifiCorp represents that it would be obligated to record a pretax non-cash charge to AOCI in the approximate amount of \$19.4 million. This amount represents the Washington portion of the Company's adjustment to recognize its Additional Minimum Liability under FAS 87. The Company represented that failure by this Commission to recognize the Additional Minimum Liability as a regulatory asset on a timely basis could negatively impact its net equity position and raise concerns among the investment community about the Company's key financial indicators.
- 6 The Company filed applications for accounting orders similar to this one with the public utility commissions in the states of Oregon, Utah, and Wyoming. Each

commission approved the Company's request for authorization to record and maintain this regulatory asset.¹ As permitted in these orders, the Company recorded the regulatory asset on its March 31, 2003, financial statements.

7 Through this Petition, PacifiCorp sought to gain our approval to record on an ongoing basis a regulatory asset equal to the pretax non-cash charge to AOCI otherwise necessitated by the Company's recognition of its Additional Minimum Liability under FAS 87.

8 The Company states the proposed accounting order would not affect the level of pension expense or rate base included in the Company's cost of service for ratemaking purposes. Nor is anything in the Petition intended to request approval regarding future ratemaking treatment of the costs for which regulatory asset treatment is requested.

II. DISCUSSION

9 Evidence presented in briefings and at the Open Meeting shows PacifiCorp may not need to record a charge to accumulated other comprehensive income due to an Additional Minimum Liability for pension obligations in as short as three years. Therefore, approval of the requested accounting treatment for the period from March 31, 2005 through March 31, 2008 appears reasonable. The regulatory asset created by charge to accumulated other comprehensive income will not directly affect pension expense, nor will it affect the level of rate base. The Company agrees that the proper forum for the ratemaking treatment of pension-related expenses is in a general rate case.

¹ See Order No. 03-233 (April 18, 2003) of the Public Utility Commission of Oregon; Order issued on March 31, 2003 in Docket No. 03-035-02 by the Public Service Commission of Utah; Order issued on May 16, 2003 in Docket No. 20000-ET-03-195 (Record No. 8112) by the Public Service Commission of Wyoming.

III. FINDINGS OF FACT

- 10 (1) PacifiCorp is an electric 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.
- 11 (2) On November 17, 2003, PacifiCorp submitted a petition for an accounting order that would authorize the Company to record on an ongoing basis, as a regulatory asset, an amount equal to the pretax charge against equity otherwise necessitated by the recognition of the Company's Additional Minimum Liability under FAS 87.
- 12 (3) The accounting treatment requested by PacifiCorp for the additional minimum pension liability for the period March 31, 2005 through March 31, 2008 is reasonable and should be approved, subject to the qualifications and clarifications embodied in this Order.
- 13 (4) A request to determine the FAS 87-determined expense to be appropriate for ratemaking purposes is unnecessary at this time.

IV. ORDER

- 14 (1) The Commission authorizes the Company to record, as a regulatory asset, an amount equal to the pretax charge against equity otherwise necessitated by the recognition of the Company's Additional Minimum Liability under FAS 87 for the period March 31, 2005 through March 31, 2008.
- 15 (2) The Commission's authorization is for accounting purposes only and does not alter, amend or affect the present and future rates paid by PacifiCorp's customers in Washington

- 16 (3) The Company may request use of the FAS 87-determined expense for
ratemaking purposes in an appropriate future proceeding. The
Commission makes no such determination in this Order.
- 17 (4) Nothing herein shall be construed to waive or otherwise impair the
jurisdiction over the rates, services, accounts and practices of PacifiCorp.
- 18 (5) The Commission retains jurisdiction to effectuate the provisions of this
Order.

DATED at Olympia, Washington this 29th day of April 2005.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

PATRICK J. OSHIE, Commissioner

PHILIP B. JONES, Commissioner

MARK SIDRAN, Chairman (dissenting):

- 19 I respectfully dissent. I believe this matter should be set for hearing. The
petition raises important policy issues about the appropriate use of regulatory
accounting mechanisms for non-regulatory items and about the proper role of
regulators in promoting transparency and consistency in the financial reporting
of investor-owned companies. These issues deserve a hearing.
- 20 The majority appears to conclude that approval is warranted because of
PacifiCorp's testimony that creation of this particular type of regulatory asset
will not impose any future costs on customers. Even if that proves true, I believe

there are other significant policy issues that warrant a hearing. The Company's \$300 million pension liability was not caused by regulation or the Company's status as a regulated company, and the Company assures us that the excess liability will not be cured by regulation, i.e., recovered from ratepayers. Given this, it is hardly obvious that regulatory asset treatment should be extended to an item that is unrelated to regulation. Indeed, there is some irony in the Company using the term "regulatory asset" and in the same breath disclaiming an intent to recover these costs in its rates, since ultimate recovery in rates is the classic definition of a "regulatory asset."

- 21 There is a significant public value associated with the accurate, consistent, and transparent reporting of financial results by investor-owned companies, whether regulated or unregulated. As regulators, we share some responsibility in protecting those values. Given the recent accounting scandals involving both regulated and unregulated companies, we should not take this responsibility lightly.
- 22 In pressing for a decision at the open meeting, the Company failed to identify any cost or disadvantage to it from setting this matter for hearing. Obviously a hearing would have resulted in a delay, but the Company has been using the requested regulatory asset accounting method for three years without an order of the Commission. Even if the Company stopped using the regulatory asset method while the hearing was pending, the effect on its financial reports would be minimal, because Washington operations amount to only 8 percent of the Company's business. The Company has stated its intent to file a general rate case within a few days, and this accounting issue could and should have been consolidated with the rate case. Much of the information relevant to the accounting at issue here will be analyzed in the rate case.
- 23 I conclude this issue warrants the scrutiny and consideration a hearing would afford, especially when the Company conceded that the additional time required would not cause it any meaningful harm. Nor is there any significant additional

burden in light of the anticipated rate case, in which similar issues will be addressed.

MARK SIDRAN, Chairman