

SERVICE DATE

APR - 1 1992

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Petition of Puget Sound Power & Light Company for an Order)	DOCKET NO. UE-911476
Regarding the Accounting Treatment for Costs of Its Environmental Remediation Program.)	ORDER AUTHORIZING ACCOUNTING TREATMENT
.)	

On December 24, 1991, Puget Sound Power & Light Company ("Petitioner" or the "Company") filed a Petition with this Commission under WAC 480-09-420(7) seeking an order regarding the treatment of costs incurred by the Company under its environmental remediation program in response to federal and state laws regarding hazardous wastes. In its Petition, the Company requests an order which:

- (1) approves Petitioner's current treatment for costs incurred in connection with its environmental remediation program prior to the date of such order, and
- (2) authorizes Petitioner to defer the costs incurred after the date of such order in connection with the environmental remediation projects identified in the Company's Petition. Costs so deferred would be recovered in rates to be established in future rate proceedings.

Petitioner claimed that the requested relief was necessary to insulate the Company's customers from fluctuations in rates due to the variability of environmental remediation costs. In addition, the Petition states that the requested accounting order would avoid the negative financial impact that otherwise would be required in accounting for these costs under current financial reporting requirements.

According to the Petition, the Company currently has underway a major environmental remediation program in response to federal and state laws regarding hazardous wastes. The principal statutes cited by Petitioner are, on the federal level, the Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA (42 U.S.C. Sections 9601 et seq.) and, on the state level, the State Model Toxic Control Act of 1988 (Chapter 70.105D) (The "State Act"), which empowers the state Department of Ecology as the principal state agency to regulate environmental matters. In order to comply with these federal and state

environmental laws, Petitioner is pursuing an environmental remediation program currently consisting of three major components: (a) investigations and remedial actions at three sites not owned by Petitioner which have been designed as "Superfund" sites under CERCLA, and at which Petitioner has been designated as a "potentially responsible party", or "PRP"; (b) remedial actions at a Company-owned site (Electron) which has been designated for cleanup pursuant to the State Act; and (c) an underground storage tank program pursuant to which Petitioner has tested its tanks and the ground surrounding them, and is removing or replacing numerous such tanks pursuant to requirements of federal and state law. From the Petition, it appears that Petitioner will incur significant remediation costs in connection with its environmental remediation program during the next few years. Because these activities are being undertaken to fulfill obligations imposed by state and federal environmental agencies, the costs incurred are alleged by the Company to be current and legitimate business expenses.

Petitioner claims that historical ratemaking methods would not provide an acceptable means of recovering these costs. It therefore seeks to defer, for recovery in rates to be established in future rate proceedings, the costs it incurs in connection with these specified activities. As stated in the Petition, the costs incurred by the Company for environmental remediation will not be incurred at an even rate during the coming years. Moreover, the costs which the Company will incur are extremely difficult to forecast due to changing regulations and the developing science of environmental cleanups. Because of this variability and unpredictability of expenditures, the deferred accounting requested in the Petition is an appropriate method for treating these costs for ratemaking purposes. Granting the essential elements of the requested accounting treatment would also allow the Company to avoid having to book as a current expense its estimate of future remediation costs associated with known sites.

In response to the Company's Petition, the Commission Staff reviewed the request and gathered additional information regarding the expenditures identified by the Company. The Commission Staff proposed that the accounting treatment be modified in a number of respects.

1. According to the Commission Staff, the prior costs recorded by the Company in retirement and insurance accounts may distort future depreciation and insurance expense. Staff therefore proposed that these costs since September 30, 1988--the end of the test period in the Company's last rate proceeding--be transferred to the deferred account and treated in the same manner as costs incurred

subsequent to the Commission Order. Company employee and legal costs would be expensed to the appropriate operating expense accounts. Costs prior to October 1, 1988, would remain in the accounts originally charged.

- 2. Commission Staff proposed that the deferred account not be allowed to accrue interest. instead, the account balances would be included as part of the Company's working capital.
- 3. Any recovery of insurance proceeds would be treated in a manner that corresponds with the treatment of the underlying costs to which the recovery relates. If the underlying costs cannot be identified, as may be the case with an insurance settlement, the Company would allocate the insurance recovery based on the percentage of costs charged to the deferred and operating expense accounts, respectively.
- 4. Commission Staff proposed that the Company be required to submit quarterly reports detailing the status of the various remediation projects and the level of costs being incurred.

These proposed modifications were discussed with the Company, and the Company was agreeable to the incorporation of these modifications into our order. The Company therefore submitted an Amendment to its Petition to reflect the modifications agreed upon by the Company and the Commission Staff. We agree that the modifications proposed by the Commission Staff are reasonable, and we therefore shall include them in our order.

FINDINGS OF FACT

THE COMMISSION FINDS:

- 1. Puget Sound Power & Light Company is engaged in the business of furnishing electric service within the state of Washington as a public service company, and is subject to the jurisdiction of this Commission.
- 2. On December 24, 1991, the Company filed a petition seeking an order regarding the accounting treatment for costs it incurs in connection with its environmental remediation program. The requested accounting treatment was modified in an Amendment to the Petition filed by the Company on March 24, 1992. In its filing, the Company identified the particular components of its environmental remediation program to which the requested accounting treatment would apply: (a) the three sites for which it has

been identified as a PRP under CERCLA, (b) its Electron site, and (c) its underground storage tank program.

3. As stated in the Petition, the activities performed by the Company in connection with its environmental remediation program are being undertaken to comply with federal and state environmental laws and regulations, and thus are current and legitimate business expenses of the Company. Moreover, it is important that utilities not be discouraged from carrying out their obligations in environmental efforts. Unless the costs incurred by the Company in connection with its program are shown to be imprudent in subsequent rate proceedings, such costs would be recoverable in Petitioner's retail rates.

4. The accounting treatment proposed in the Petition for remediation costs is appropriate in light of the variability and unpredictability of environmental expenditures.

ORDER

WHEREFORE, THE COMMISSION HEREBY ORDERS:

1. Approval is hereby given for the accounting treatment proposed in the Amendment to the Petition with respect to costs incurred since September 30, 1988 and prior to the date of this Order in connection with the Company's environmental remediation program. This accounting treatment consists of the following: (a) transferring the remediation costs incurred by Petitioner at the sites identified in the Petition, previously charged as a cost of retirement, to a deferred account; (b) transferring the remediation costs incurred by Petitioner at its Electron site from the property damage reserve (Account 228) to a deferred account; and (c) transferring the remediation costs charged as a cost of retirement under the Company's underground storage tank program to a deferred account. The accounting treatment described above shall not apply, however, to internal employee expenses and legal costs, which shall be expensed.

2. For costs incurred by the Company after the date of this Order in connection with its environmental remediation program, as such program is identified in the Petition, the Company is authorized to defer such costs for recovery in rates in future rate proceedings. Costs eligible for such accounting treatment shall include only those amounts paid to outside vendors and contractors (e.g., investigation and feasibility studies, sampling, evaluation, monitoring, materials, remediation, removal, disposal and post-remediation work) and do not include legal costs.


3. Costs deferred in accordance with paragraphs 1 and 2 above shall be subject to the following conditions:

- (a) Any deferred costs shown to be imprudent in future rate proceedings of Petitioner are subject to disallowance;
- (b) Deferred costs will be recovered in rates using an appropriate method as determined in such proceedings;
- (c) Deferred costs will be included in the calculation of the Company's working capital in future rate proceedings; and
- (d) Deferred costs will be reduced by any insurance proceeds or payments from other responsible parties recovered by Petitioner in respect of such costs. (Conversely, proceeds or payments received by Petitioner in respect of costs incurred prior to October 1, 1988 or costs expensed subsequent to October 1, 1988 will not be used to reduce deferred costs.

4. The Commission retains jurisdiction to effectuate the provisions of this order.

DATED at Olympia, Washington, and effective this 1st day of April, 1992.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION



SHARON L. NELSON, Chairman



RICHARD D. CASAD, Commissioner



A. U. PARDINI, Commissioner