

RECEIVED  
RECORDS MANAGEMENT

UE-031878(P)

03 NOV 17 AM 9:10

STATE OF WASH.  
UTIL. AND TRANSP.  
BOARD



November 14, 2003

Washington Utilities & Transportation Commission  
1300 S. Evergreen Park Drive SW  
Olympia, WA 98504-7250

Attention: Carole Washburn  
Executive Secretary

RE: Docket No. \_\_\_\_\_  
Petition for Accounting Order

Pursuant to Washington Law, including Sections 80.28.050 and 80.28.060 of the revised Code of Washington and the Commission's Rules and Regulations, PacifiCorp (d.b.a. Pacific Power & Light Company) submits for filing an original and sixteen (16) conformed copies of the Petition of PacifiCorp For an Accounting Order Regarding Treatment of Pension Liability (the "Petition").

Through the Petition, PacifiCorp requests Commission authorization of accounting treatment relating to pension liability, as well as confirmation by the Commission that certain actuarially determined pension costs are recoverable in rates. PacifiCorp anticipates filing a general rate case in the early part of December 2003, in which it will seek recovery of these pension costs. In light of this expected rate filing and the nature of the Petition, PacifiCorp would support Commission use of a process by which a ruling on the Petition is deferred until the completion of the Company's rate case. Such a process is appropriate because it would enable the Commission to consider its rate case determination with respect to PacifiCorp's pension costs in addressing the Petition's request for confirmation of pension cost recoverability.

It is respectfully requested that all formal correspondence and Staff requests regarding this matter be addressed to:

By E-mail (preferred): [datarequest@pacificorp.com](mailto:datarequest@pacificorp.com)

By Fax: (503) 813-6060

By regular mail: Data Request Response Center  
PacifiCorp  
825 NE Multnomah, Suite 800  
Portland, OR 97232

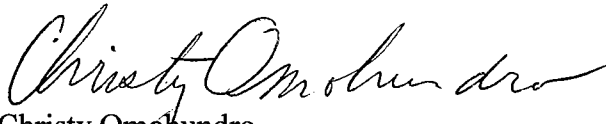


With copies to:

Christy Omohundro  
Vice President, Regulation  
PacifiCorp  
825 NE Multnomah, Suite 800  
Portland, OR 97232  
Telephone: (503) 813-6092  
Facsimile: (503) 813-6060  
E-mail: [christy.omohundro@pacificorp.com](mailto:christy.omohundro@pacificorp.com)

James M. Van Nostrand  
Gregory H. Nowak  
Stoel Rives LLP  
600 University Street, Suite 3600  
Seattle, WA 98101-3197  
Telephone: (206) 386-7665  
Facsimile (206) 386-7500  
E-mail: [jmvannostrand@stoel.com](mailto:jmvannostrand@stoel.com)

Sincerely,

A handwritten signature in cursive script that reads "Christy Omohundro".

Christy Omohundro  
Vice President, Regulation  
Enclosures

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

Petition of

**PACIFICORP dba PACIFIC POWER &  
LIGHT COMPANY**

For an Accounting Order Regarding Treatment  
of Pension Liability

Docket No. UE-03 \_\_\_\_\_

**PETITION**

In accordance with WAC 480-09-420(7), PacifiCorp doing business as Pacific Power & Light Company (“PacifiCorp” or “the Company”) respectfully petitions the Washington Utilities and Transportation Commission (the “Commission”) for an accounting order authorizing 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. Such an order will have no effect on the level of pension expense included in the Company’s cost of service. In addition, PacifiCorp respectfully requests confirmation by the Commission that actuarially determined FAS 87 pension costs are recoverable in rates.

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

RECEIVED  
REGISTRY MANAGEMENT  
03 NOV 17 AM 9:10  
STATE OF WASH.  
UTIL. AND TRANSP.  
COMMISSION

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. PacifiCorp also provides retail electricity service in the states of California, Idaho, Oregon, Wyoming, and Utah.

2. This Petition is filed pursuant to RCW 80.01.040(3), which authorizes the Commission to regulate in the public interest the rates, service, facilities, and practices of electrical companies; RCW 80.04.090, which authorizes the Commission to prescribe the forms of account to be kept by public service companies; and WAC 480-100-203, pertaining to the accounting requirements applicable to electric utilities in the state of Washington.

3. Communications regarding this Petition should be addressed to:

Christy Omohundro  
Vice President, Regulation  
PacifiCorp  
825 NE Multnomah, Suite 800  
Portland, OR 97232  
Telephone: (503) 813-6092  
Facsimile: (503) 813-6060  
E-mail: [christy.omohundro@pacificorp.com](mailto:christy.omohundro@pacificorp.com)

James M. Van Nostrand  
Gregory H. Nowak  
STOEL RIVES LLP  
600 University Street, Suite 3600  
Seattle, WA 98101-3197  
Telephone: (206) 386-7665  
Facsimile (206) 386-7500  
E-mail: [jmvannostrand@stoel.com](mailto:jmvannostrand@stoel.com)

In addition, it is respectfully requested that all formal correspondence and Staff requests regarding this matter be addressed to:

By E-mail (preferred): [datarequest@pacificorp.com](mailto:datarequest@pacificorp.com)

By Fax: (503) 813-6060

By regular mail: Data Request Response Center  
PacifiCorp  
825 NE Multnomah, Suite 800  
Portland, OR 97232

4. PacifiCorp's most recent general rate proceeding in Washington was Docket No. UE-991832, which resulted in the issuance of the Commission's Third Supplemental Order on August 9, 2000. That Order approved a Stipulation which, among other things, 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.) The accounting treatment of pension liability is such an item, and this petition seeks to obtain the necessary accounting authorizations in Washington.

5. Between fiscal years 1993 and 2003, the Company made \$519 million in cash contributions to its pension plan, while recording \$407 million in FAS 87 expense. Between 1996 and 2001, the fair value of pension assets was sufficient to avoid recording an Additional Minimum Liability. 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.

6. As a result of declining equity markets and lower interest rates, PacifiCorp now faces a pension fund deficit. These factors have had the combined effect of reducing the value of the assets held in trust to meet pension obligations, while also increasing the benefit obligation of the Company, since the present value of the Company's future benefit obligation to its employees is increased because of lower interest rates. The amount of expense recorded under FAS 87 includes recognition of the current deficit.

7. At March 31, 2003, prior to recording the Additional Minimum Liability under FAS 87, the amount recorded as the Unfunded Accrued Pension Cost Liability was the cumulative amount by which each year's net periodic cost as determined under FAS 87 had exceeded the cumulative amount of contributions to the pension plan. 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 component of shareholders' equity. The remaining amount was recorded as a regulatory asset. 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.

8. In February 2003, the Company filed applications for accounting orders with each of the public utility commissions in the states of Oregon, Utah, and Wyoming requesting authorization to record, as a regulatory asset, an amount equal to the pretax charge to equity otherwise necessitated by the recognition of the Company's Additional Minimum Liability under FAS 87. In response to PacifiCorp's applications, each commission approved the Company's request for authorization to record and maintain the regulatory asset.<sup>1</sup> As permitted in these orders, the Company recorded the regulatory asset on its March 31, 2003 financial statements.

9. Through this Petition, PacifiCorp seeks to gain Commission 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. Absent such approval, PacifiCorp will 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. Although this charge to equity is expected to be reversed in future periods, the charge would have the immediate effect of reducing PacifiCorp's common equity capitalization.

10. The Company does not anticipate that a charge to AOCI would cause an immediate ratings downgrade. However, whether or not the charge to AOCI leads directly to a ratings downgrade, it would certainly have adverse effects. The charge would reduce book equity and result in a higher debt-to-capital ratio, which generally has

---

<sup>1</sup> 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.

negative implications on a company's ratings and, consequently, on the cost, terms and conditions of borrowings. Issuing long-term debt securities with an impaired debt-to-capital ratio may result in higher cost debt than without the equity charge. Furthermore, the Company's cost of short-term debt may increase due to the increased leverage. Absent approval of this Petition, the Company would seek to recover from its customers this increase in the cost of capital.

11. The Company noted and responded to these adverse effects in December 2002, when PacifiCorp issued 14,851,485 shares of PacifiCorp common stock to PacifiCorp Holdings, Inc. for \$150 million in cash. The cash payment was used to reduce debt and to strengthen PacifiCorp's balance sheet and increase its equity capitalization, thereby benefiting both the Company and its customers. The intended results of this equity issuance were to assist in maintaining PacifiCorp's investment grade ratings and a capital structure consistent with that of other public utilities with similar credit ratings. Absent an accounting order concerning treatment of the Additional Minimum Liability, the charge to AOCI will, in part, reverse the benefit to PacifiCorp and its customers of this equity infusion.

12. As part of its merger with ScottishPower, the Company made commitments based on increasing the level of equity capitalization over time. Absent this accounting order, the Company's compliance with this merger commitment may be impaired due to factors such as equity market returns and declining interest rates, which are beyond the Company's control.

13. The proposed accounting order would not affect the level of pension expense included in the Company's cost of service for ratemaking purposes.



14. The attached exhibit details the accounting entries that the Company recorded to recognize the Additional Minimum Liability at March 31, 2003, in accordance with FAS 87.

15. Nothing in this Petition is intended to request approval regarding future ratemaking treatment of the costs for which regulatory asset treatment is requested. The Company does seek, through this Petition, confirmation by the Commission that actuarially determined FAS 87 pension costs are recoverable in rates.

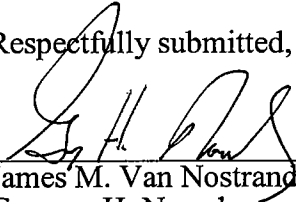
16. Currently, PacifiCorp anticipates filing a general rate case with the Commission in the early part of December 2003. The Company will seek recovery of its actuarially determined FAS 87 pension costs in this rate case proceeding. In light of this expected rate filing and the nature of this Petition, the Commission may consider delaying its ruling on this Petition until the Company's general rate case proceeding has been completed. Because the recoverability of pension costs will be determined in the upcoming rate case, a deferred ruling would enable the Commission to consider that rate case determination in addressing this Petition's request for Commission confirmation of pension cost recoverability. For this reason, PacifiCorp would support Commission use of a process by which a ruling on this Petition is deferred until the completion of the Company's rate case.

WHEREFORE, PacifiCorp respectfully requests an Order of the Commission authorizing 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. Further, PacifiCorp requests confirmation by the Commission that actuarially determined FAS 87 pension costs are

recoverable in rates. The requested accounting treatment is consistent with the Company's current accounting practice and authorization from commissions in other states where PacifiCorp has utility operations.

DATED this fourteenth day of November, 2003.

Respectfully submitted,



---

James M. Van Nostrand  
Gregory H. Nowak  
Stoel Rives LLP

Attorneys for PacifiCorp

**EXHIBIT****PacifiCorp Minimum Pension Liability Adjustments****31-Mar-03**

(in thousands of dollars)

<u>Entry No.</u>		<u>Intangible Assets (Pension) 186.9</u>	
1	Dr. \$	1,474	
		Account Balance	<u>\$ 1,474</u>
		<u>Other Regulatory Assets 182.3</u>	
1	Cr.	\$ (1,474)	
2		(1,416)	
3	Dr. \$	237,455	
4		Account Balance	<u>\$ 234,565</u>
		<u>Minimum Pension Accrual 228.3</u>	
3	Cr.	\$ (237,455)	
		Account Balance	<u>\$ (237,455)</u>
		<u>Other Comprehensive Income</u>	
2	Dr. \$	1,416	
		Account Balance	<u>\$ 1,416</u>

**Explanations**

- 1 Increase Pension Plan Asset (Intangible)
- 2 Decrease Other Comprehensive Income
- 3 Increase Pension Plan Liability
- 4 Create Regulatory Asset for the cost of the Pension Shortfall