

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

Petition of

PACIFICORP dba PACIFIC POWER &
LIGHT COMPANY

For an Accounting Order Regarding Treatment
of Environmental Remediation Costs

Docket No. UE-03

PETITION

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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 and defer costs prudently incurred in connection with its environmental remediation program, on an ongoing basis. Specifically, the Company seeks to record all such costs in FERC Account 182.3, Other Regulatory Assets. In addition, PacifiCorp requests the Commission find that use of a ten-year time frame would be a reasonable period over which to amortize these environmental remediation costs.

The accounting treatment proposed in this Petition reflects PacifiCorp’s decade-long practice with respect to its environmental remediation costs. Also, this treatment is consistent with previous ratemaking determinations in other states where PacifiCorp has utility operations. In these states, recovery of the Company’s deferred environmental remediation costs has not been disallowed. This Petition is not seeking approval regarding future ratemaking treatment of these costs; the Company anticipates that it will seek consideration of these costs in its next general rate proceeding.

In support of this Application, PacifiCorp states:

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 Application 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 Application should be addressed to:

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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

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 PacifiCorp's environmental remediation costs is such an item, and this petition seeks to obtain the necessary accounting authorizations in Washington.

5. PacifiCorp incurs environmental remediation expenses as a legitimate cost of operating as a public utility in the state of Washington and in its other jurisdictions. These costs relate to the Company's environmental remediation program activities. PacifiCorp has generally undertaken these cleanup activities to fulfill obligations imposed by state and federal environmental agencies in recent years. This Commission has found environmental cleanup costs undertaken in order to comply with federal and state regulations to be current and legitimate business expenses and recoverable in rates, unless such costs were shown to be imprudent in a subsequent rate proceeding.¹ The Company

¹ *Puget Sound Power & Light Company*, Docket No. UE-911476 (April 1, 1992) (hereinafter, *Puget Sound Power & Light*). See also *Washington Natural Gas Company*, Docket No. UG-920781, letter

anticipates that it will continue to seek recovery of these costs in any future ratemaking proceeding.

6. The Company's current accounting treatment with respect to its environmental remediation costs is to record these expenditures, by project, as they are spent. 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.² Then, on an annual 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. 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.

7. PacifiCorp seeks Commission approval of the Company's current accounting treatment for prudently- incurred environmental remediation expenditures and Commission authorization to continue to record and defer these costs on an ongoing basis, consistent with the Company's current practice. Absent such approval, the Company will be required to write-off approximately \$610,000 (as of March 31, 2003) of its deferred environmental remediation account by recording a charge to income in the current year. This is the current amount of the deferred account specifically allocable to Washington remediation costs. In addition to the current year write-off, ongoing

dated November 25, 1992 approving Accounting Petition for Environmental Remediation Program. Other commissions have also recognized such costs as necessary, ongoing business expenses properly recoverable in rates, in the absence of willful misconduct, imprudence, gross negligence, etc. *See, e.g., Mountain Fuel Supply Company*, Docket No. 89-057-15 (Utah PSC 1992); *Northern States Power Co.*, 73 PUR 4th 395 (Minn. PUC 1985).

² See Statement of Financial Accounting Standards No. 5 and related FASB Interpretation No. 14.

environmental cleanup costs would then be expensed as incurred in accordance with Generally Accepted Accounting Principles (“GAAP”).

8. For the reasons hereinafter described, the Company’s current deferred treatment of these environmental remediation costs is appropriate and represents a better method of accounting for, and ultimate recovery of, these costs, than would otherwise be required without Commission approval.

9. First, the Company’s environmental remediation expenditures will not likely be incurred at a constant or predictable rate. Because rates are typically established based on historical period experience in a traditional ratemaking proceeding, PacifiCorp’s customers could potentially be subject to wide swings in rate impacts from year to year based on remediation cost fluctuations without the stabilizing benefit afforded by deferred treatment. In addition, the costs that PacifiCorp will incur are extremely difficult to forecast due to changing environmental regulations and continuing developments in the science of contamination identification and environmental cleanup. Because the level of these expenditures is often unpredictable, these costs are not well suited to the type of pro forma adjustments typically utilized to smooth year-to-year expense fluctuations.

10. Additionally, to the extent the Company is required to record a loss contingency for future environmental costs in accordance with financial accounting standards, Commission approval of the requested treatment will allow the Company to record these costs as a regulatory asset. In the absence of Commission authorization, the Company would be required to record these future costs through a charge to current year income. As a consequence of this requirement, rates during periods in which additional

environmental liabilities were discovered or when prior liabilities were found to be understated or overstated would be significantly impacted because of the timing of these discoveries or valuations.

11. Finally, public policy strongly supports timely remediation of contaminated sites. In addition to the social policy of cleaning contaminated sites as soon as possible, early remediation may help to reduce related costs.³ Consequently, it is important that the timing and extent of a utility's participation in these endeavors not be limited by concerns related to the accounting treatment and future recoverability of these necessary expenditures in rates. Commission authorization to record and defer these costs on an on-going basis, consistent with current practice, will enable the Company to continue to pursue these policy goals without having to consider its remediation response in light of regulatory uncertainties and ratemaking concerns.⁴

12. The Commission has previously approved deferred accounting treatment for certain costs incurred in connection with environmental remediation projects. In *Puget Sound Power & Light*, the Commission granted authorization to defer such costs for recovery in future rate proceedings, reasoning that the deferred accounting treatment proposed by the utility was "appropriate in light of the variability and unpredictability of

³ The Illinois Commerce Commission recognized this possibility in *Central Illinois Light Company*, 124 PUR 4th 498, 503, 504 (1991), stating:

[F]ailure to remediate voluntarily could result in . . . loss of control over remediation activities, and higher costs. . . It has never been considered imprudent to comply voluntarily with the environmental laws, and it is certainly not imprudent to keep the remediation expenses at the lowest possible level.

⁴ In approving a deferred accounting treatment for environmental costs in *Puget Sound Power & Light*, this Commission noted that "it is important that utilities not be discouraged from carrying out their obligations in environmental efforts." Other state commissions have encouraged early participation by utilities in remediation activities as a matter of policy. See, e.g., *Iowa Public Service Company*, Docket No. RPU-87-6 (Feb. 1989); *Iowa Power and Light Company*, Docket No. RPU-88-10 (June 1989).

environmental expenditures.” Similar treatment was approved for Washington Natural Gas Company.⁵ The same justification for approving deferred treatment in those cases currently exists with regard to PacifiCorp’s environmental remediation project costs.

13. Nothing in this Petition is intended to request approval regarding future ratemaking treatment of the costs for which deferred accounting treatment is requested. However, amortized environmental remediation costs have been included in the Company’s determination of revenue requirement in rate case proceedings before state commissions throughout its service territory.⁶ Recovery of these amortized costs has not been disallowed in any such proceeding. As previously noted, the Company will continue to seek recovery of these remediation costs in future rate case proceedings.

14. 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 requests the Commission find that use of a ten-year time frame would be a reasonable period over which to amortize these environmental remediation costs for later recovery in rates. The commissions of other states in which PacifiCorp has utility operations have implicitly determined the reasonableness of this amortization period in prior rate proceedings.⁷ As noted in the preceding paragraph, the Company’s deferred environmental remediation

⁵ Docket No. UG-920781, letter dated November 25, 1992 from Paul Curl, Secretary, to Timothy J. Hogan.

⁶ See Docket No. 01-035-01 before the Public Service Commission of Utah; UE-116 and UE-147 before the Public Utility Commission of Oregon; and Docket No. 20000-ER-02-184 before the Public Service Commission of Wyoming.

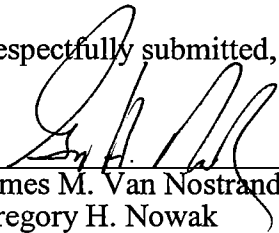
⁷ *Id.*

costs, which are amortized over a ten-year period, have not been disallowed in any of these rate case proceedings.

WHEREFORE, PacifiCorp respectfully petitions the Commission for an accounting order authorizing the Company to record and defer costs prudently incurred in connection with its environmental remediation program, on an ongoing basis. In addition, PacifiCorp requests the Commission find that ten years is a reasonable period over which to amortize these environmental remediation costs.

DATED this tenth day of October, 2003.

Respectfully submitted,



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