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**BEFORE THE PUBLIC UTILITY COMMISSION**

**OF OREGON**

UM 1047

In the Matter of	)	
	)	
PACIFICORP,	)	
dba PACIFIC POWER & LIGHT,	)	ORDER
	)	
Application for an Accounting Order Regarding	)	
Deferral of Trail Mountain Mine Unrecovered	)	
Closure Costs.	)	

**DISPOSITION: ACCOUNTING TREATMENT APPROVED**

On January 10, 2002, PacifiCorp, doing business as Pacific Power & Light Company (PacifiCorp or Company), filed an application with the Public Utility Commission of Oregon (Commission), pursuant to ORS 757.120, 757.125, 757.259 and OAR 860-027-0045, for an accounting order regarding unrecovered costs associated with the closure of the Trail Mountain Mine. A description of the filing and procedural history is contained in the Staff Report attached as Appendix A and incorporated by reference.

Based on a review of the application and the Commission's records, the Commission finds that the application satisfies applicable statutes and administrative rules. At its Public Meeting on March 21, 2002, the Commission adopted Staff's recommendation to allow PacifiCorp to record unrecovered costs associated with closure of its Trail Mountain Mine for accounting purposes only.

**ORDER**

IT IS ORDERED THAT PacifiCorp's request to record unrecovered costs associated with the closure of Trail Mountain Mine for accounting purposes only, as further described in Appendix A, is approved.

IT IS FURTHER ORDERED that ratemaking treatment will be decided in consolidated dockets UE 134/UM1047.

Made, entered and effective \_\_\_\_\_.

BY THE COMMISSION:

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**Becky L. Beier**  
Commission Secretary

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A party may appeal this order to a court pursuant to ORS 756.580.

**ITEM NO. 4A**

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: March 21, 2002**

**REGULAR**   X   **CONSENT**        **EFFECTIVE DATE**       March 31, 2002      

**DATE:** March 12, 2002

**TO:** John Savage through Lee Sparling and Ed Busch

**FROM:** Judy Johnson

**SUBJECT:** PACIFIC POWER & LIGHT: (Docket No. UM 1047) Requests an Accounting Order Regarding Trail Mountain Mine Unrecovered Closure Costs.

**STAFF RECOMMENDATION:**

I recommend the Commission allow Pacific Power & Light Company to record unrecovered costs associated with closure of its Trail Mountain Mine, for accounting purposes only, leaving ratemaking treatment to be decided in Docket UE 134.

**DISCUSSION:**

On January 10, 2002, Pacific Power & Light Company (PacifiCorp or company) requested that the Commission issue an accounting order regarding Trail Mountain Mine unrecovered closure costs. On February 4, 2002, Staff requested that the Trail Mountain Mine Accounting Application (Docket No. UM 1047) be consolidated with Docket UE 134, which is PacifiCorp's Application for Approval of Revised Tariffs to Reflect New Net Power Costs. On February 8, 2002, PacifiCorp responded to Staff's motion to consolidate the two dockets. In its Response, the company stated:

"PacifiCorp does not object to Staff's motion to consolidate Docket UM 1047 with this proceeding. In that regard, however, PacifiCorp notes that there is a need to address the proper accounting treatment of the Trail Mountain Mine closure costs before the end of the Company's fiscal year, March 31, 2002. Accordingly, the Company respectfully requests that the Commission issue an order authorizing PacifiCorp to record and defer unrecovered costs

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associated with the Trail Mountain closure no later than March 31, 2002. Such an order would be for accounting purposes only, leaving the merits of the proper ratemaking treatment of those costs for consideration in this UE 134 filing." (PacifiCorp's Response, page 2, lines 8-16.)

On February 13, 2002, Judge Logan issued a ruling granting Staff's request to consolidate Docket No. UM 1047 with Docket No. UE 134. In that ruling, Judge Logan noted:

"PacifiCorp requests that the Commission issue an order in UM 1047 by March 31, 2002, authorizing PacifiCorp to record and defer unrecovered costs associated with the Trail Mountain Mine closure. This order would be for accounting purposes only. PacifiCorp's request is not granted, as I do not have enough information to make a decision. Instead I ask the parties to discuss this issue, and if agreement is reached, PacifiCorp may raise the issue at a later time." (ALJ Logan's ruling issued February 13, 2002, page 1.)

On March 7, 2002, the Parties in UE 134 (PacifiCorp, Commission Staff, Citizen's Utility Board of Oregon, and The Industrial Customers of Northwest Utilities) met for settlement discussions. All Parties reached verbal agreement regarding the appropriate rate treatment for Trail Mountain Mine's unrecovered closing costs. The Parties also agreed that it is appropriate that the Commission exercise its authority under ORS 757.120 and 757.125 to grant PacifiCorp an accounting order that allows the company to record these costs, even though all issues raised in UE 134 have not yet been resolved.

Staff notes that the Parties' agreement regarding PacifiCorp's application for an accounting order to record unrecovered costs associated with the Trail Mountain Mine closure is predicated on several conditions relating to the rate treatment of the unrecovered costs. These conditions will be part of a settlement agreement in UE 134, and are as follows<sup>1</sup>:

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<sup>1</sup> The Parties have agreed on at least a partial settlement of issues in UE 134, which includes agreement to the conditions set forth above. The Parties have also agreed to present at least a partial stipulation to the Commission for approval. It was not clear at the time this memorandum was drafted whether UE 134 parties will settle all issues raised in that docket.

1. PacifiCorp will be allowed to amortize into rates unrecovered costs associated with the closure of Trail Mountain Mine, subject to these conditions:
  - (a) The balance will be amortized over five years;
  - (b) The recovery will be through a separate tariff;
  - (c) The amortization will be through Account 501, but will not be allowed to impact any power cost adjustment (PCA) that may be implemented. PacifiCorp will record the amortization in a separate subaccount so it can be removed when the PCA is calculated;
  - (d) There will be no return allowed on the unamortized unrecovered costs of Trail Mountain Mine;
  - (e) The other owners of the Hunter Plants, the only plants that obtained coal from Trail Mountain Mine, will be responsible for their share of Trail Mountain Mine closure costs. Owners, other than PacifiCorp, own 15 percent of the Hunter Plants. Accordingly, PacifiCorp's ratepayers will be responsible for only 85 percent of the total unrecovered costs associated with the Trail Mountain Mine closure; and
  
2. The return on the Trail Mountain Mine investment embedded in base rates set in Docket No. UE 116 will be removed.

The total estimated unrecovered closure costs are \$45.8 million, which consists of the following elements: 1) Unrecovered Trail Mountain Mine Investment - \$26.5 million; 2) Western Coal Carrier post-retirement benefits - \$3.1 million; 3) Mine Closure Costs - \$2.5 million; 4) Royalties - \$2.2 million; and 5) Early Retirement/Severance Costs - \$11.5 million. These are total company costs; Oregon's share is approximately one third.

Staff notes that by issuing an accounting order the Commission is not bound to the proposed ratemaking treatment in UE 134 for the unrecovered closure costs of Trail Mountain Mine.

#### History of Trail Mountain Mine

Staff's agreement with other parties, and its recommendation to the Commission regarding PacifiCorp's application for an accounting order authorizing the company to record costs associated with the closure of Trail Mountain Mine, is based on the circumstances of the Trail Mountain Mine closure.

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In September 1992, PacifiCorp acquired the Trail Mountain Mine from Arco. The company believed that the purchase provided strategic advantages because the Trail Mountain reserves are adjacent to the Cottonwood Mine, which was already owned and operated by PacifiCorp. The close proximity of the two mines allowed for a sharing of facilities and extended the life of the Cottonwood Mine by approximately 5 years. However, PacifiCorp cannot recover approximately 3.6 million tons of the originally estimated coal reserves at Trail Mountain Mine because of difficult geologic and mining conditions, government requirements, and coal quality issues.

In addition, at the time it acquired the Trail Mountain Mine, the company believed that the acquisition placed PacifiCorp in an advantageous position to acquire adjacent leases to the west and north under a competitive bid process. These acquisitions would have further extended the life of the Trail Mountain and Cottonwood Mine facilities. However, the company now states that several factors have contributed to a decision not to pursue additional reserve acquisitions. First, additional investigation of the Cottonwood lease adjacent to the Trail Mountain Mine indicates that the reserve has geologic conditions that will make it less economic than other fuel sources in the state at this time. In addition, a portion of the reserves may be incapable of being mined due to their proximity to the Joe's Valley Reservoir and Dam. Second, the Cottonwood Lease is tied up in environmental investigations and was not available for lease when the existing Trail Mountain reserves were exhausted.

PacifiCorp states that because of the economic environment in the Utah coal market at the time the closure decision was made, it was able to secure a favorable long-term contract with another Utah coal producer to supply the majority of the coal requirements necessary to replace the Trail Mountain coal supply. The company believes the contract terms are favorable and the delivered fuel prices are projected to be lower than the estimated costs to mine the Cottonwood Lease as an extension of the Trail Mountain Mine. PacifiCorp states that these reserves may become more economic in the future as more competitive reserves in the state become depleted.

**PROPOSED COMMISSION MOTION:**

Pacific Power and Light Company be allowed to record unrecovered costs associated with closure of its Trail Mountain Mine for accounting purposes only.