ORDER NO. 04-585

ENTERED OCT 07 2004

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1167

In the Matter of	)	
	)	
IDAHO POWER COMPANY	)	ORDER
	)	
Application for an Accounting Order	)	
Regarding Treatment of Certain Asset	)	
Requirement Obligations.	)	

DISPOSITION: APPLICATION APPROVED WITH CONDITION

On August 30, 2004, Idaho Power Company (Idaho Power) filed an application with the Public Utility Commission of Oregon (Commission) requesting an accounting order authorizing Idaho Power to: 1) record, as a regulatory asset or a regulatory liability, the cumulative financial statement impact resulting from Idaho Power's implementation of Statement of Financial Accounting Standards (SFAS) 143; and 2) record on an ongoing basis, as a regulatory asset or regulatory liability, an amount equal to the difference between the annual SFAS accretion and depreciation expenses and the annual depreciation expenses based on Commission-approved depreciation expense.

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS 143, *Accounting for Asset Retirement Obligations*, effective January 1, 2003. Under SFAS 143, entities are required to recognize and account for certain asset retirement obligations in a manner different from the way that Idaho Power has traditionally recognized and accounted for such costs. Staff's recommendation is attached as Appendix A and is incorporated by reference.

At its Public Meeting on October 5, 2004, the Commission adopted Staff's Recommendation and approved Idaho Power's current request with one condition.

ORDER

IT IS ORDERED that:

1. Idaho Power Company's accounting application is approved, effective January 1, 2003, subject to the condition set forth below.

2. At any time Idaho Power Company files a rate change, including general rates filing and Power Cost Adjustment filing, Idaho Power Company must provide Staff with all journal entries made under the requirements of SFAS 143 and any journal entries that true-up the SFAS adjustments to historical regulatory accounting in order to remove rate impacts of this accounting treatment.

Made, entered and effective ____________________________________.

BY THE COMMISSION:

____

Becky L. Beier
Commission Secretary

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order to a court pursuant to applicable law.

ITEM NO. CA7

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: October 5, 2004

REGULAR ____ **CONSENT** __X__ **EFFECTIVE DATE** ______**January 1, 2003**______

DATE: October 8, 2004

TO: Lee Sparling through Ed Busch and Judy Johnson

FROM: Carla Owings

SUBJECT: IDAHO POWER COMPANY: (Docket No. UM 1167) Requests authorization to implement Statement of Financial Accounting Standards 143 and its impact on regulatory assets on an on-going basis.

STAFF RECOMMENDATION:

I recommend the Commission approve Idaho Power Company's (Idaho Power or Company) request to implement a new accounting methodology pursuant to ORS 757.125, regarding treatment of certain asset requirement obligations under SFAS 143, to become effective January 1, 2003, subject to the following condition:

1. Upon filing for a rate change, including, but not limited to, general rate filings and Power Cost Adjustment filings, the Company must provide Staff with all journal entries made under the requirements of SFAS 143, and any journal entries that true-up the SFAS adjustments to historical regulatory accounting in order to remove rate impacts of this accounting treatment. This condition does not apply to proposed rate changes that are not affected by the requirements for SFAS 143, such as Demand Side Management (DSM) filings.

DISCUSSION:

On August 30, 2004, Idaho Power Company (Idaho Power or Company) filed an application requesting an accounting order authorizing the Company to: 1) record, as a regulatory asset or a regulatory liability, the cumulative financial statement impact resulting from the Company's implementation of Statement of Financial Accounting Standards (SFAS) 143; and 2) record on an ongoing basis, as a regulatory asset or regulatory liability, an amount equal to the difference between the annual SFAS accretion and depreciation expenses and the annual depreciation expense based on Commission-approved depreciation rates.

On June 2001, the Financial Accounting Standards Board (FASB) issued SFAS 143, *Accounting for Asset Retirement Obligations*, to become effective January 1, 2003. Under SFAS 143, entities are required to recognize and account for certain asset retirement obligations in a manner different from the way that Idaho Power has traditionally recognized and accounted for such costs.

Specifically, if a legally enforceable asset retirement obligation (ARO), as defined by SFAS 143, is deemed to exist, an entity must measure and record the liability for the ARO on its books at fair market value in the period during which the liability is incurred. At the time the liability is recorded, a corresponding and equivalent ARO asset is also recorded on the entity's books as part of the cost of the associated tangible asset. The ARO asset is then depreciated over the life of the associated tangible asset. In addition, accretion is added to the ARO liability annually to account for the time value of money, so that at the time of retirement the recorded ARO liability will be sufficient to provide the cash required to meet the legal obligation.

In addition to the forward-looking requirements of SFAS 143, entities are required to recognize the cumulative impact on their financial statements resulting from the implementation of SFAS 143. This cumulative impact amounts to a transition entry on the entity's books, so that in future years the financial statements will appear as if the requirements of SFAS 143 had always been followed. Neither the SFAS 143 transition entries, nor the annual accounting entries, will change the level of costs included in rates.

Idaho Power is required to implement SFAS 143 in order to comply with Generally Accepted Accounting Principles. The Company has determined that it will need to record AROs under SFAS 143 for certain generation and mining assets. The Company has also identified AROs for transmission and distribution assets. However, the timing of those obligations is indeterminate and the liability cannot be measured and recorded at this time. There were no material AROs for general plant assets.

The Company's proposed accounting treatment will use SFAS 143 for reporting on its financial statements, but retain its current methodology for ratemaking purposes. SFAS 143 recognizes that differences may exist between its requirements and the treatment of ARO costs for regulatory purposes, and provides that a regulated entity, subject to SFAS 71, *Accounting for the Effects of Certain Types of Regulation*, can recognize any differences between the two approaches as a regulatory asset or a regulatory liability, subject to the requirements of SFAS 71.

Under the accounting method currently used by the Company, for both financial reporting and ratemaking purposes, the cost of removing a tangible long-lived asset at retirement is included in the calculation of depreciation rates as negative salvage and is recovered over the useful life of the asset. This method accounts for the accrued removal cost in Account 108, Accumulated Depreciation.

Idaho Power believes that it is inappropriate to apply the requirements of SFAS 143 in determining AROs for ratemaking purposes. Rather, the Company believes that AROs should continue to be established through traditional depreciation studies and recovered through the application of Commission-approved depreciation rates. Staff agrees with this position and recommends the Commission adopt the proposed methodology.

Nothing in this application requests any approval regarding future ratemaking treatment. Idaho Power notes, however, that upon retirement of the related assets and determination of actual removal costs, such costs will be trued-up for ratemaking purposes, at which time the regulatory accounts associated with these assets will be eliminated. For regulatory reporting purposes, the effects of SFAS 143 will be removed and there should be no rate change, now or in the future, associated with the application of the requested accounting treatment.

The Company also requests confirmation by the Commission that asset removal costs, in the form of negative net salvage, are currently accrued through annual depreciation expense which is recoverable in rates; that these costs are based on estimates of the final removal cost; and that such costs are trued-up for ratemaking purposes at the time the related assets are retired and the actual removal costs are determined. Staff does not believe that this confirmation should be in a formal Commission motion for accounting approval. However, Staff acknowledges that the Company's characterization of the Commission's current ratemaking practices in regard to asset removal costs is correct.

PROPOSED COMMISSION MOTION:

Idaho Power's request to implement a new accounting methodology pursuant to ORS 757.125, regarding treatment of certain asset requirement obligations under SFAS 143, to become effective January 1, 2003, be approved subject to the following condition:

1. Upon filing for a rate change, including, but not limited to, general rate filings and Power Cost Adjustment filings, the Company must provide Staff with all journal entries made under the requirements of SFAS 143, and any journal entries that true-up the SFAS adjustments to historical regulatory accounting in order to remove rate impacts of this accounting treatment. This condition does not apply to proposed rate changes that are not affected by the requirements for SFAS 143, such as DSM filings.