TO: Utah Public Service Commission

FROM: Ric Campbell, Director
Lowell Alt, Manager
Ron Burrup, Auditor
Tom Peel, Auditor

DATE: August 31, 2000

RE: PacifiCorp Rate Case Docket No. 99-035-10 - Pension Cost (Asset) Write Off

ISSUE:

The Utah Public Service Commission (Commission), in its Report and Order (Docket No. 99-035-10, pgs 57-59), allowed a 10 year amortization of the deferred pension asset but expressed concern about the component parts that make up the $86,886,996 (total electric operations) balance. The Commission directed the division to conduct an audit of the deferred pension asset to determine whether the balance, as represented by the Company, properly reflects the accounting and deferral treatment intended in prior Commission orders.

FINDINGS:

The Division met twice with representatives (Jeff Larson and Jim Nelson) of PacifiCorp's Regulatory Department. The Division learned that the deferred pension asset includes the effects of two early retirement programs implemented during 1987 and 1990.

On May 8, 1987, the Commssion issued an Accounting Order (Docket No. 87-035-16) in response to a request by Utah Power and Light Company. The Commission ordered the following:

- Utah Power and Light Company shall account for pension costs in compliance with SFAS Nos. 87 and 88.
- Any difference between pension expense required under these FASB standards and that expense permitted under ERISA shall be

established as a deferred debit, or credit, as appropriate under SFAS No. 71.

In accordance with the Commission's order, the Company has recognized as pension expense the **annual funding** amount (for the years 1987 - 1997), for both financial and regulatory accounting purposes. The actual amount funded in a given year applies to both active employees and early retirees. The annual pension costs, calculated in accordance with the FASB standards, also includes costs associated with both active employees and early retirees. The difference between the annual funding amount and the FASB pension costs is the deferral amount.

The Company changed to accrual accounting for pension expense, in 1997, for financial reporting purposes. The change to accrual accounting for regulatory purposes occurred in 1998 (Rate Case Docket No. 99-035-10). Any remaining unamortized costs, associated with the early retirement programs, will continue to be included as part of pension expense under accrual accounting in future years.

During 1990, as part of its overall cost reduction program, PacifiCorp (Electric Operations) offered an early retirement incentive program and a voluntary severance package. On April 12, 1990, the Company filed a letter with the Commission (Docket No. 90-035-08) requesting an Accounting Order.

The Division's memo to the Commission, also dated April 12, 1990, addressed the accounting treatment for both the early retirement program and the voluntary severance package. The Division's recommendation was as follows:

- Retirement recommendation - The Commission has previously ordered that UP&L account for pension costs in compliance with SFAS No. 87 and 88, and that any difference between pension expense, required under these FASB standards, and that expense, permitted under ERISA, should be established as a deferred debit, or credit, as appropriate under SFAS No. 71. **We believe these previous accounting orders are still applicable to the current Early Retirement application, and recommend approval as requested.**
- Severance recommendation - The Commission should issue an Accounting Order allowing amortization over five years with the unamortized balance recorded as a deferred debit.

The Commission issued an Accounting Order (Docket No. 90-035-08) approving a five-year amortization of the severance package. **No mention was made of the early retirement program.** The Division concludes that a response was not necessary because the accounting treatment of the 1990 early retirement program would be in accordance with the deferral accounting treatment previously approved by the Commission in Docket No. 87-035-16.

CONCLUSION:

The Division concludes that the deferred pension asset of $86,886,996, for total electric operations, was determined in accordance with prior Utah Commission orders. The Utah allocated portion of the deferred pension asset is approximately $31.6 million or $3.2 million per year, based on the 10 year amortization approved by the Commission. Amortization of the deferred pension asset commenced in 1998.

It is the Division's understanding that, besides Utah, all other PacifiCorp regulatory jurisdictions have also authorized similar accounting procedures for pension expense and pension cost deferral.

Cc: Mike Ginsberg
Dan Gimble, Committee of Consumer Services
Robert Dalley / Jeff Larson, PacifiCorp