

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Application of PacifiCorp)
for an Accounting Order Regarding)
Treatment of Pension Liability)

DOCKET NO. 03-035-02

ORDER

ISSUED: March 31, 2003

By The Commission:

On February 21, 2003, PacifiCorp, dba Utah Power and Light Company (Company), applied for an accounting order permitting the Company to record, as a regulatory asset, an amount equal to the pre-tax charge against equity arising from the Company's recognition of its Additional Minimum Liability pension liability in accordance with Financial Accounting Standards (FAS) 87. The Company asks for resolution of its Application on or before March 31, 2003, the due date for its Form 10-K, which will include its accounting treatment of the Additional Minimum Liability. On March 25, the Division of Public Utilities (DPU), Department of Commerce, filed its comments and recommendation concerning the Company's Application. The Committee of Consumer Services (Committee) submitted its comments on March 28, 2003.

In its Application, the Company reports that the decline in equity markets and lower interest rates occurring in the recent past have caused the accumulated benefit obligation of its pension plan to exceed the fair value of pension plan assets beyond the currently recorded pension fund liability. Under FAS 87, this difference is recognized by recording an Additional Minimum Liability. The Additional Minimum Liability may be partially offset by recording an Intangible Asset to the extent permitted by FAS 87. The recognition of the remaining amount requires the Company to record a pre-tax charge to Accumulated Other Comprehensive Income (AOCI), which is a component of shareholder equity.

The Company states that this charge against equity, reducing its common equity capitalization, will change its debt-to-capital ratio, which can have an impact on its debt ratings and costs of debt. While a pre-tax charge against AOCI may be reversed in future periods, as equity markets and interest rates change the values of the pension plan's accumulated benefit obligation and the fair value of pension assets, the Company requests authority to create and maintain a regulatory asset equal to the pre-tax non-cash charge to AOCI otherwise necessitated by the Company's recognition of its Additional Minimum Liability under FAS 87. The Company states that Commission authorization of the proposed regulatory asset under the requested accounting order would not change the level of pension expense currently included in the Company's cost of service and rates. The Company also states that it does not seek a determination of any future ratemaking issues that may arise from the creation and maintenance of the regulatory asset permitted through the requested accounting order.

The DPU recommends granting the Company's request for the accounting order. The DPU notes that the charge to equity that would occur in fiscal 2003, absent an accounting order, would likely have a minimal impact on the equity ratio; future charges and their impacts on debt costs and debt ratings are unknown at this time. The DPU supports the use of the regulatory asset under the requested accounting order as a means of stabilizing the financial debt-to-equity ratio from significant swings in interest rates and in equity markets. The DPU states it would also eliminate questions on rate base treatment of the deferred tax asset associated with a pre-tax charge to equity.

The Committee questions whether the requested accounting order, permitting the creation and use of the requested regulatory asset, would meet the criteria of FAS 71. The Committee notes that the Company's position on deferring decisions on the ratemaking treatment, associated with the requested regulatory asset, could raise FAS 71 questions. The Committee recommends that if the Commission grants the Company's Application, the Commission require the Company to obtain a written statement from external auditors that the Company's proposal will comply with FAS 71 and be in compliance with generally accepted accounting practice (GAAP).

The Commission concludes that the Company's request should be granted. Use of the proposed regulatory asset, essentially to offset the pre-tax charge against AOIC, may help insulate the Company's costs of debt and debt ratings from changing market circumstances. Permitting the use of the proposed regulatory asset appears calculated to assist the Company in its financial reporting. Authorizing the use of the proposed regulatory asset and associated accounting does not have an impact on the Company's current cost of service and regulated rates. Future ratemaking treatment and other regulatory treatment of the asset is reserved for future determination of the Commission.

Public utilities are expected to comply with GAAP. We are unaware, however, of instances where the Commission has directed a utility to take specific actions relative to the utility's financial accounting practices. Our focus is placed on the accounting practices for regulatory purposes; ultimately, the ratemaking aspects of regulation. Financial accounting has traditionally been the responsibility of the utility's management. We believe we understand the Committee's position, but decline to include the specific direction directed to financial accounting practices, particularly where the ratemaking treatment is reserved for our future determination.

ORDER

NOW, THEREFORE, IT IS HEREBY ORDERED, that:

The Company is authorized to create and maintain a regulatory asset equal to the pre-tax non-cash charge to AOIC otherwise necessitated by the Company's recognition of its Additional Minimum Liability under FAS 87. The size or value of this regulatory asset may be changed as the Company accounts for its Additional Minimum Liability through each appropriate accounting period after its initial creation authorized by this order.

DATED at Salt Lake City, Utah, this 31st day of March, 2002.

/s/ Stephen F. Mecham, Chairman

/s/ Constance B. White, Commissioner

/s/ Richard M. Campbell, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary

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