

### **DPU Data Request 3.2**

Please refer to explanation “e” in the “10-K –Form 1 Bal. Sheet” tab in the “FERC From 1 and 10K – Results of Operations Reconciliations” excel file.

- (a) Please provide a detailed description of the accounting treatment differences between non-ARO removal costs and ARO removal costs under GAAP and FERC.
- (b) Please provide examples of the typical journal entries involved in non- ARO removal costs and ARO removal costs under GAAP and FERC.
- (c) Please describe how removal costs are determined to be ARO or non-ARO related.
- (d) How are non-ARO removal costs and ARO removal costs treated in the semiannual results of operations?
- (e) How are non-ARO removal costs and ARO removal costs treated in rate cases?

### **Response to DPU Data Request 3.2**

- (a) There are no accounting treatment differences for ARO removal costs under GAAP and FERC. Non-ARO removal costs are reflected in the cost of removal regulatory liability under GAAP and as accumulated depreciation under the FERC accounting and reporting standards.
- (b) Refer to Attachment DPU 3.2 for examples of the typical journal entries involving non-ARO and ARO removal costs under GAAP and FERC.
- (c) Removal costs are determined to be AROs when they meet the definition of a legal obligation and asset retirement obligation included in Accounting Standards Codification (ASC) subtopic 410-20-20, *Asset Retirement and Environmental Obligations – Asset Retirement Obligations - Glossary*. Removal dollars that do not meet the definition of a legal obligation in ASC 410-20-20 are determined to be non-ARO.

ASC 410-20-20 definitions:

*Legal Obligation:* An obligation that a party is required to settle as a result of an existing or enacted law, statute, ordinance, or written or oral contract or by legal construction of a contract under the doctrine of promissory estoppel.

*Asset Retirement Obligation:* An obligation associated with the retirement of a tangible long-lived asset.

- (d) Non-ARO removal costs are included in depreciation expense (account 403) and accumulated depreciation (account 108). Entries associated with ARO removal costs are not reflected in above-the-line regulatory results. All

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removal costs included in regulatory results are accrued through depreciation expense (account 403) and credited to accumulated depreciation (account 108).

- (e) There is no difference in treatment of ARO and non-ARO items between rate case and results of operations filings.