- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Application of PacifiCorp, dba Utah Power & Light Company, for an Accounting Order	)))	DOCKET NO. 01-035-12 REPORT AND ORDER

ISSUED: June 15, 2001

By The Commission:

On April 4, 2001, PacifiCorp, dba Utah Power & Light Company (PacifiCorp or the Company), filed an Application with the Commission for an order authorizing the establishment of a regulatory asset or regulatory liability associated with the implementation of Financial Accounting Standards 133 and 138 (FAS l33/138), Accounting for Derivative Instruments and Hedging Activities. The Commission requested the Division of Public Utilities (Division) to review the Application and submit a recommendation to the Commission. On May 1, 2001, the Division submitted a memorandum describing its analysis of the Application and recommending that the Commission approve the Company's Application, with a modification to the particular accounts to be used pursuant to discussions between the Division and the Company. On June 1, 2001, the Company submitted a letter to the Commission in response to the Division's recommendation.

DISCUSSIONS, FINDINGS, AND CONCLUSIONS

The Company filed the Application pursuant to Utah Code Ann. § 54-4-23, which authorizes the Commission to prescribe the accounting to be used by public utilities subject to its jurisdiction. The Company's Application describes FAS 133/138 (the standards) and their impact on the Company's financial reporting. The Company states that many contracts, such as certain power purchase and sale contracts, which must be entered into by the Company in order to facilitate normal business operations, meet the definition of a derivative as defined in FAS 133/138.

The standards require all derivatives, and certain embedded derivatives, to be reported on the balance sheet at fair value. Changes in the fair value of derivatives, as defined by FAS 133/138, are to be recorded through earnings exposing PacifiCorp's financial accounting earnings to potentially significant volatility. This earnings volatility is strictly related to timing differences between when a contract is entered into and when the contract is settled. The Company further states that the market valuation assets, or liabilities required by FAS 133/138, along with the offsetting regulatory assets and liabilities, authorized by this Order, will offset in the Company's jurisdictional rate base and therefore not impact rates. The Company believes that any entries, that are necessary for balance sheet recognition pursuant to FAS 133/138, should be offset by regulatory assets or liabilities, and not recorded through the Company's statement of income. Specifically, the standards would require the difference between the contract price and the market price to be recognized as a gain or loss, at every measurement date (which would be quarterly for the Company), even though there is no cash flow associated with this gain or loss.

The Company points out that FAS 133/138 does not have an impact on cash flows of the Company, providing the following example: If the Company enters into a power purchase contract in March of 2001 for delivery of power in August 2001 at a fixed price per megawatt hour, the market price of power for the forward month of August will change over time, depending on market conditions. The contract would have to be measured at the quarter ending March 31, 2001, and June 30, 2001, and the difference between the contract price and the forward market price, for power in August, would have to be recognized as a gain or loss for the quarters ending March 31, 2001 and June 30, 2001. When this contract settles and power is delivered, expense would be recognized for the actual amount of the purchase (contract price) and the net gain/loss recognized on March 31 and June 30 would be reversed. Thus, there would be no economic or cash flow change in the transaction. Under the Company's proposal, the regulatory asset or liability associated with the transaction explained above would also be reversed.

The Company submits, and the Commission finds, that recording gains or losses, associated with the implementation of FAS 133/138, would cause significant volatility to the Company's retained earnings and thereby significantly impact (increasing or decreasing) the Company's ability to pay dividends, without a corresponding change in cash flow from operating results. Financing arrangements of the Company could also be impacted. Such a situation should be avoided.

The Company's proposed accounting treatment will not affect the review and determination of prudence regarding the Company's purchase and sales contracts. As the Company includes energy contracts in its cost of service based on cash settlements, the future non-cash impacts of the accounting convention imposed by FAS 133/138 will be excluded from the Commission's determination of cost of service, with respect to the contracts.

The Company proposes the following accounting treatment under FAS 133/138, reflecting the modification discussed with the Division: The Company will record the fair value of various contracts according to FAS 133/138, as assets, in FERC Account 186, Miscellaneous Deferred Debits, or as liabilities in FERC Account 253, Other Deferred Credits. The offsetting regulatory assets and/or liabilities will be recorded using FERC Accounts 182.3, Miscellaneous Regulatory Assets, and FERC Account 254, Other Regulatory Liabilities. Under the proposed accounting, when the obligations under an affected contract are fulfilled, any gain or loss recognized under the standard would be reversed, and the offsetting regulatory asset or liability would be simultaneously reversed, resulting in no net gain, or loss, upon settlement of the contract. The Company requests that the Commission approve the proposed accounting treatment, effective for financial accounting entries, beginning with the Company's adoption of FAS 133/138 on April 1, 2001.

In its Memorandum dated May 1, 2001, the Division recommended approval of the Company's Application, with a modification to the particular accounts used to record offsetting entries to the FAS 133/138 assets and liabilities. The Division's recommendation was also made subject to certain conditions, which were clarified through modifications stated in theCompany's June 1, 2001 letter, and agreed to by the Division:

a.) The market valuation assets or liabilities required by FAS 133/138, along with theoffsetting regulatory assets and liabilities authorized by this Order, will offset the Company's jurisdictional rate base and therefore will not impact rates.

b.) The regulatory assets or liabilities, offsetting the market valuation required by FAS 133/138, will be reported separately on the Semi-Annual Reports filed in Utah to ensure they are not included in the cost of service.

c.) The regulatory assets or liabilities, offsetting the market valuation required by FAS 133/138, will be identified separately in Accounts 182.3 and 254.

d.) Adoption of the accounting treatment, for derivatives and hedging activities, in no way makes a determination of the prudence of any such contract for rate-making purposes.

The Division stated that the proposed accounting would avoid earnings volatility, be consistent with regulatory reporting, and be in the public interest.

The Commission finds, based on the Company's Application and the Division's Memorandum, that the accounting treatment proposed by the Company regarding FAS 133/138 is appropriate and reasonable. Further, the Commission finds the conditions proposed by the Division, as modified, to be reasonable.

ORDER

NOW, THEREFORE, IT IS HEREBY ORDERED, that:

- PacifiCorp's Application in this matter is approved subject to the conditions stated above, and the modification stated in the Division's Memorandum referenced herein. Accordingly, PacifiCorp is authorized to record the fair value of various contracts according to FAS 133/138, as assets, in FERC Account 186, Miscellaneous Deferred Debits, or as liabilities, in FERC Account 253, Other Deferred Credits. PacifiCorp will simultaneously record offsetting regulatory assets and/or liabilities to the FAS 133/138 assets and liabilities using FERC Account 182.3, Miscellaneous Regulatory Assets, and FERC Account 254, Other Regulatory Liabilities.

- This Report and Order constitutes final agency action on PacifiCorp's Application in this Docket. Pursuant to Utah Code Ann. § 63-46b-13, an aggrieved party may file, within 20 days after the date of this Report and Order, a written request for rehearing/reconsideration by the Commission. Pursuant to Utah Code Ann. § 54-7-15, failure to file such a request precludes judicial review of the Report and Order. If the Commission fails to issue an order within 20 days after the filing of such request, the request shall be considered denied.

DATED at Salt Lake City, Utah, this 15th day of June, 2001.

/s/ Stephen F. Mecham, Chairman

/s/ Constance B. White, Commissioner

/s/ Richard M. Campbell, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary