

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE APPLICATION )**  
**OF PACIFICORP DBA ROCKY )** **CASE NO. PAC-E-10-04**  
**MOUNTAIN POWER FOR APPROVAL OF )**  
**AN ACCOUNTING ORDER RECORDING )**  
**CERTAIN POST-RETIREMENT )**  
**PRESCRIPTION DRUG COSTS AS A )** **ORDER NO. 32028**  
**REGULATORY ASSET )**  
**)**

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On April 2, 2010, PacifiCorp dba Rocky Mountain Power (“Rocky Mountain” or “Company”) filed an Application with the Idaho Public Utilities Commission (“Commission”), pursuant to *Idaho Code* §§ 61-301, 61-307, 61-622, and 61-623, for approval of an accounting order authorizing the Company to record a regulatory asset associated with tax benefits previously reflected in rates that will no longer be realized for certain costs incurred for post-retirement prescription drug coverage as the result of the Patient Protection and Affordable Care Act (“Act”).

On May 20, 2010, the Commission issued a Notice of Application and Notice of Modified Procedure establishing a 21-day comment period. *See* Order No. 31088. Commission Staff was the only party to submit written comments within the established comment period.

**THE APPLICATION**

Rocky Mountain states that its Application was instigated by the passage of the PPACA on March 23, 2010. *Id.* at 2. The PPACA “contains provisions for a federal subsidy for employers offering post-retirement prescription drug coverage to its retirees. . . .” *Id.* at 3. According to Rocky Mountain, “[t]he [PPACA] changes the deductibility of certain costs incurred for post-retirement prescription drug coverage.” *Id.* at 2. Prior to the PPACA, employers were allowed “to deduct the entire cost of providing the coverage, even though a portion is offset by the subsidy.” *Id.* at 3. The PPACA eliminates the “current rule permitting deduction of the portion of the expense that is offset by the subsidy.” *Id.*

As a result, Rocky Mountain requests authorization for the recording of a “regulatory asset to FERC Account 182.3 (Other Regulatory Assets) and a credit to FERC Account 410.1 (Deferred Tax Expense) to recover the Idaho Portion of tax benefits previously reflected in rates

that will no longer be realized as the result of the [PPACA].” *Id.* at 4. The Company suggests a four-year amortization period for the regulatory asset beginning January 1, 2011, and a reflection of “the amortization expense in the Company's next general rate case.” *Id.* at 2-3.

Rocky Mountain estimates a \$30.0 million system-wide OPEB (Other Post-Employment Benefit) related costs associated with the change in the law. *Id.* at 3-4. The Company attributes approximately \$11.4 million of that amount to the first quarter of the 2010 calendar year resulting, when amortized and grossed-up for tax effects, in a revenue requirement impact of approximately \$18.5 million on a total Company basis amortized over four years. *Id.* at 4. The Company claims that Idaho’s share of the regulatory asset would be approximately \$1.0 million. *Id.* Rocky Mountain does not request a final Commission decision regarding rate recovery. *Id.*

#### STAFF COMMENTS

Staff explained that the Medicare Modernization Act (“MMA”) of 2003 “provided a 28 percent subsidy to companies that provided a retiree drug discount” because it allowed companies “to deduct 100 percent of the cost of the drug benefit provided to their retirees even though the companies were paying only 72 percent of the benefits.” *Staff Comments* at 2.

The PPACA’s elimination of that tax subsidy compels companies to “reduce the post-retirement benefit obligation on the balance sheet by the amount of the actuarially-determined subsidy to be received.” *Id.* at 3. “[T]he related deferred tax asset was based on the gross benefit obligation before the reduction for estimated future subsidies because the subsidy was tax deductible.” *Id.* “[F]uture subsidies receivable will remain non-taxable, but the corresponding amount of OPEB related costs will become non-deductible for income tax purposes.” *Id.* “[T]he related deferred tax assets will now be based on the benefit obligation net of subsidy payments expected after 2012.” *Id.*

Pursuant to Financial Accounting Standards Board Statement No. 106 (FASB106) (circa 1990), most companies will make a single accounting entry reflecting a liability for “future retiree health costs” during the first quarter of 2010. *Id.* “The reduction in the deferred tax asset will be recorded in earnings from continuing operations in the period including the March 2010 enactment date.” *Id.*

Staff supports the creation of a “regulatory asset in FERC Account 182.3 (Other Regulatory Assets) to account for the effect of the PPACA” and the amortization of “the expense

over a four-year period beginning January 1, 2011.” *Id.* This sort of accounting treatment will provide “a direct benefit to customers by minimizing the rate impact related to the change in accounting procedures.” *Id.*

Staff recommended that the Company use separate sub-accounts specifically for these entries in order to facilitate an audit of Rocky Mountain’s account activity. *Id.* Staff has not audited or reviewed the financial data provided by the Company. *Id.* Staff intends to review the financial data as part of its financial audit related to Case No. PAC-E-10-7 filed May 28, 2010. *Id.*

Rocky Mountain did not request a carrying charge on the regulatory asset emanating from the revised accounting treatment mandated by the PPACA. Staff believes that it would be inappropriate to include a carrying charge in rate base. *Id.* Finally, Staff recommended that an Order include specific language noting that the Commission will defer any decision regarding rate recovery for “specific dollar amounts recorded in the regulatory assets” to its deliberations concerning the Company’s current general rate case (PAC-E-10-07). *Id.*

#### **COMMISSION DECISION AND FINDINGS**

The Commission has reviewed and considered all the filings in Case No. PAC-E-10-04 concerning Rocky Mountain’s Application for an accounting order authorizing the Company to record a regulatory asset for certain post-retirement prescription drug coverage costs resulting from the loss of a previously held tax benefit that will no longer be realized due to Congress’ recent passage of the Patient Protection and Affordable Care Act (“Act”). The Commission finds the Application reasonable. Therefore, Rocky Mountain is authorized to record the aforementioned expense as a regulatory asset in its accounting ledger and amortize the expense over a four-year period beginning on January 1, 2011. The Commission will withhold its review and judgment regarding the ratemaking treatment of these costs until such time as the Company makes a specific request for the recovery of these costs through its rates during its general rate case (PAC-E-10-07) currently pending before the Commission.

#### **CONCLUSIONS OF LAW**

PacifiCorp dba Rocky Mountain Power is an electric corporation within the definition of *Idaho Code* § 61-119, and a public utility within the definition of *Idaho Code* § 61-129. The Idaho Public Utilities Commission has jurisdiction over this matter pursuant to *Idaho Code* § 61-524 and IDAPA 31.01.01.052.

## ORDER

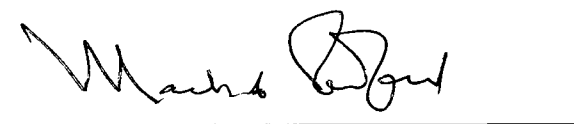
IT IS HEREBY ORDERED that PacifiCorp dba Rocky Mountain Power's Application, pursuant to *Idaho Code* §§ 61-301, 61-307, 61-622, and 61-623, seeking the Commission's approval of an accounting order authorizing Rocky Mountain Power to record a regulatory asset, in FERC Account 182.3 (Other Regulatory Assets), to account for the effect of the PPACA on the Company's costs associated with its post-retirement prescription drug coverage program for former employees and to amortize the expense over a four-year period beginning January 1, 2011 is approved.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order. Within seven (7) days after any person has petitioned for reconsideration any other person may cross-petition for reconsideration. *See Idaho Code* § 61-626.

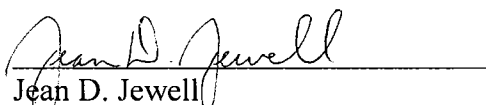
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this <sup>1<sup>st</sup></sup> day of July 2010.

  
JIM D. KEMPTON, PRESIDENT

  
MARSHA H. SMITH, COMMISSIONER

  
MACK A. REDFORD, COMMISSIONER

ATTEST:

  
Jean D. Jewell  
Commission Secretary

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