

STATE OF MICHIGAN  
BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

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In the matter, on the Commission's own motion,	)	
to establish appropriate accounting and ratemaking	)	
treatment for STATEMENT OF FINANCIAL	)	Case No. U-14292
ACCOUNTING STANDARDS NO. 143.	)	
_____	)	

At the October 14, 2004 meeting of the Michigan Public Service Commission in Lansing, Michigan.

PRESENT: Hon. J. Peter Lark, Chair  
Hon. Robert B. Nelson, Commissioner  
Hon. Laura Chappelle, Commissioner

**ORDER INITIATING GENERIC PROCEEDING AND NOTICE OF HEARING**

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (FAS) No. 143, Accounting for Asset Retirement Obligations. That statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. On April 9, 2003, the Federal Energy Regulatory Commission (FERC) issued Order No. 631 in Docket No. RM02-7-000.<sup>1</sup> In that order, the FERC established uniform accounting and financial reporting for the recognition and measurement of liabilities arising from retirement and decommissioning obligations of tangible long-lived assets and costs related to those obligations. The objective of both the FASB and the FERC was to provide sound and uniform accounting and financial reporting for these types of transactions and events.

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<sup>1</sup>68 FR 19610 through 19701.

The Commission prescribes accounting standards for those entities under its jurisdiction, and in recent cases before the Commission parties have presented varying interpretations regarding how (and if) FAS No. 143 should be applied to Commission-jurisdictional entities. The computation and recovery of costs related to the retirement of long-lived assets and the related costs of retirement can have a dramatic effect upon the expenses found to be appropriate for ratemaking purposes. An FAS No. 143 approach would be a shift from prior practice within Michigan. The FERC's Order No. 631, while not applicable to Commission-jurisdictional entities, provides some insight into appropriate regulatory accounting measures concerning FAS No. 143. However, the FERC has not addressed the ratemaking implications of Order No. 631, leaving the issue to be determined in individual rate cases before that commission.

Although the FASB is a financial reporting authority and the FERC's jurisdiction does not reach to Commission-jurisdictional entities, the research, writings, and pronouncements of those bodies may be helpful to this Commission in its review of appropriate accounting and ratemaking treatment related to FAS No. 143. Moreover, the Commission finds that a uniform approach to this issue would be beneficial to all Michigan-regulated entities, rather than a company-by-company determination of appropriate accounting and ratemaking. Accordingly, the Commission establishes this proceeding to review future treatment of FAS No. 143-related issues, proper future ratemaking policy regarding those issues, necessary uniform system of accounts revisions, and other matters that are related to the retirement of tangible long-lived assets and the associated asset retirement costs.

The cost of preparing testimony, statistical information, and responses to Commission requests may be prohibitive for smaller Commission-jurisdictional entities. Consequently, only those Commission-jurisdictional electric utilities with more than 125,000 Michigan customers and

Commission-jurisdictional gas utilities with more than 70,000 Michigan customers shall be required to respond to the questions below and prepare testimony as outlined. All of the remaining smaller Commission-jurisdictional entities and other interested parties are encouraged to respond—singularly, jointly, or through an association; the Commission is interested in hearing all points of view regarding these issues. Petitions to intervene by those parties that are not required to respond by this order (including the smaller utilities discussed above), and that desire to participate in this proceeding, shall be filed on or before December 2, 2004.<sup>2</sup>

Those Commission-jurisdictional entities required to respond to this order shall file proposed written testimony discussing the stated issues (with recommendations to the Commission), supported by factual evidence that is presented by witnesses and that will be subject to cross-examination. This testimony shall include answers to the questions listed below, and it shall be filed on or before January 19, 2005.

A prehearing conference shall be held at the offices of the Commission on December 14, 2004 at 9:00 a.m. At the prehearing conference, the Administrative Law Judge (ALJ) shall rule on any petitions to intervene that have been filed, and shall set a schedule for the initial filings of all parties that have not been required to file by this order. At the prehearing conference, the ALJ, for good cause shown, may revise the January 19, 2005 filing date for the Commission-jurisdictional entities that are required to file by this order. At the prehearing conference, the ALJ also may establish dates for subsequent filings, such as replies and rebuttal, which in the ALJ's discretion are determined to be appropriate for this proceeding.

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<sup>2</sup>While intervention standards have been established by the Commission, because of the generic nature of this contested case proceeding, interventions should be granted to participants in the most recent general rate cases and gas cost recovery and power supply cost recovery cases of the Commission-jurisdictional entities that are required to respond by this order. In the Commission's view, those parties have an interest in the subject matter to be reviewed by this generic contested case proceeding.

Initial filings, at a minimum, must respond to the following questions:

- A. How are jurisdictional gas and electric utilities currently interpreting FAS No. 143?
- (1) For all plant accounts, identify and describe all asset retirement obligations (AROs) of your company. Provide specific and particular documentation to support the legal obligation.
  - (2) Of the asset retirement obligations listed above, specify and quantify as of December 31, 2003 the asset retirement obligations for which FAS No. 143 liability recognition is required. Provide calculations of asset retirement costs and ARO liabilities for each associated plant account at December 31, 2003.
- B. How are jurisdictional gas and electric utilities currently accounting for AROs for which FAS No. 143 liability recognition is required (FAS No. 143 AROs)?
- (1) Describe in detail your company's MPSC accounting for the FAS No. 143 AROs in 2003. List the asset, liability, expense, and gain/loss accounts used, and the balances of the accounts at December 31, 2003.
  - (2) If there is a difference between your company's accounting for FAS No. 143 AROs for MPSC purposes, and the accounting for FERC and/or public reporting purposes, describe the alternative accounting in detail as above.
  - (3) How has your company's accounting for cost of removal been affected by FAS No. 143?
  - (4) Has your company increased its total assets, liabilities, and expenses as a result of recording FAS No. 143 AROs, or have the amounts been netted against accruals for cost of removal and depreciation expense?
  - (5) If the amounts recorded for cost of removal in depreciation accruals have been affected by the recording of FAS No. 143 AROs, explain and quantify the effects by account for 2003.
  - (6) Do any of the FAS No. 143 AROs of your company exceed the cumulative cost of removal accrued for the associated asset as of December 31, 2003? If so, please explain your accounting for these AROs, and the effects on cost of removal accounting.
- C. Should the Commission adopt the accounts and the accounting set forth in FERC Order No. 631 for FAS No. 143 AROs and cost of removal? If not, describe the alternative accounts and accounting, and the advantages of the alternative method.

- D. The Commission includes cost of removal in the calculation of depreciation accrual rates. Most of the cost of removal being accrued is related to assets for which there is not a legal obligation to incur retirement costs.
- (1) Should the Commission continue to allow the accrual of cost of removal for which there is no ARO?
  - (2) Should the Commission's current policy for recovering cost of removal be changed in light of FAS No. 143?
  - (3) If changes should be made, describe the changes, and how the changes in cost of removal recovery should be implemented by the Commission.
  - (4) How should the Uniform System of Accounts be revised for changes in cost of removal recovery?
- E. On June 7, 2004, FASB issued a proposed interpretation of FAS No. 143 with regards to accounting for conditional AROs.
- (1) Does this interpretation, if adopted by FASB, create additional AROs beyond those described in A.(1) above? If yes, provide specific and particular documentation to support the new legal obligation.
  - (2) Does this interpretation, if adopted by FASB, create additional FAS No. 143 AROs beyond those described in A.(2) above? If yes, describe the potential impact on your company's income and balance sheet if the proposed interpretation is adopted.
  - (3) Would the proposed interpretation require implementation of any new accounts or accounting by the Commission?

The Commission FINDS that:

- a. Jurisdiction is pursuant to 1909 PA 106, as amended, MCL 460.551 et seq.; 1909 PA 300, as amended, MCL 462.2 et seq.; 1919 PA 419, as amended, MCL 460.51 et seq.; 1929 PA 9, as amended, MCL 483.101 et seq.; 1939 PA 3, as amended, MCL 460.1 et seq.; 1969 PA 306, as amended, MCL 24.201 et seq.; and the Commission's Rules of Practice and Procedure, as amended, 1999 AC, R 460.17101 et seq.
- b. A generic contested case proceeding should be instituted to review FAS No. 143, FERC Order No. 631, and their accounting and ratemaking issues (as well as other matters that are

related to the retirement of tangible long-lived assets and the associated asset retirement costs) for Commission-jurisdictional electric and gas entities.

c. Each Commission-jurisdictional electric utility with more than 125,000 Michigan customers and each Commission-jurisdictional gas utility with more than 70,000 Michigan customers should publish notice of this proceeding by November 18, 2004 in newspapers of general circulation throughout its respective service territories. Publication of the notice may be coordinated to avoid unnecessary duplication. Each Commission-jurisdictional entity that is required to file by this order also should serve notice on all parties to its most recent, or pending, general rate case.

d. On or before January 19, 2005 (or as otherwise determined by the ALJ for good cause shown), Commission-jurisdictional electric utilities with more than 125,000 Michigan customers and Commission-jurisdictional gas utilities with more than 70,000 Michigan customers should be required to respond to the questions contained in this order and also should file prepared testimony as outlined in this order.

e. A prehearing conference should be held on December 14, 2004 in the offices of the Commission, 6545 Mercantile Way, Lansing, Michigan at 9:00 a.m.

THEREFORE, IT IS ORDERED that:

A. A generic proceeding shall be established to review Statement of Financial Accounting Standards No. 143, Federal Energy Regulatory Commission Order No. 631, and their accounting and ratemaking issues (as well as other matters that are related to the retirement of tangible long-lived assets and the associated asset retirement costs) for Commission-jurisdictional electric and gas entities.

B. Each Commission-jurisdictional electric utility with more than 125,000 Michigan customers and each Commission-jurisdictional gas utility with more than 70,000 Michigan customers shall publish notice of this proceeding by November 18, 2004 in newspapers of general circulation throughout its respective service territories. Publication of the notice may be coordinated to avoid unnecessary duplication. Each Commission-jurisdictional electric utility with more than 125,000 Michigan customers and each Commission-jurisdictional gas utility with more than 70,000 Michigan customers also shall serve notice on all parties to its most recent, or pending, general rate case.

C. On or before January 19, 2005 (or as otherwise determined by the Administrative Law Judge for good cause shown), Commission-jurisdictional electric utilities with more than 125,000 Michigan customers and Commission-jurisdictional gas utilities with more than 70,000 Michigan customers shall respond to the questions contained in this order and also shall file prepared testimony as outlined in this order.

D. A prehearing conference shall be held at the Commission's offices, 6545 Mercantile Way, Lansing, Michigan on December 14, 2004 at 9:00 a.m.

The Commission has selected this case for participation in its Electronic Filings program. All documents filed in this case must be submitted in both paper and electronic versions. An original and four paper copies and an electronic copy in the portable document format (PDF) should be filed with the Commission. Requirements for filing electronic documents can be found in the Commission's Electronic Filings Users Manual at:

<http://efile.mpsc.cis.state.mi.us/efile/usersmanual.pdf> . You may contact the Commission Staff at (800) 292-9555, (517) 241-6170, or by e-mail at [mpsc.efile.cases@michigan.gov](mailto:mpsc.efile.cases@michigan.gov) with any questions and/or to obtain access privileges prior to filing.

The Commission reserves jurisdiction and may issue further orders as necessary.

Any party desiring to appeal this order must do so in the appropriate court within 30 days after issuance and notice of this order, pursuant to MCL 462.26.

MICHIGAN PUBLIC SERVICE COMMISSION

/s/ J. Peter Lark

Chair

( S E A L )

/s/ Robert B. Nelson

Commissioner

/s/ Laura Chappelle

Commissioner

By its action of October 14, 2004.

/s/ Mary Jo Kunkle

Its Executive Secretary

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MICHIGAN PUBLIC SERVICE COMMISSION

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Suggested Minute:

“Adopt and issue order dated October 14, 2004 establishing a generic contested case proceeding to review Statement of Financial Accounting Standards No. 143, Federal Energy Regulatory Commission Order No. 631, and their accounting and ratemaking issues (as well as other matters that are related to the retirement of tangible long-lived assets and the associated asset retirement costs) for Commission-jurisdictional electric and gas entities, as set forth in the order.”