

## Deferred Environmental Costs City Light Issue Paper (CLIP)

**Date of this Brief** June 12, 2013

**Supersedes**

**Key Contacts**

**Name(s)**

**Phone**

**Short Title**

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Seattle City Light CFO

**Council Action Required?**

Y

**If YES, within the next 3 months?**

N

**Public Hearing Required?**

N

**Presenters (if applicable)**

Jorge Carrasco, *General Manager*

Jeff Bishop, *Chief Financial Officer*

### Summary Statement

Seeks to affirm Seattle City Light's (City Light) use of certain standard accounting practices in accounting for environmental cleanup costs.

### Background

Environmental cleanup costs are expected to be significantly higher in the next few years. In the past, such expenses have been recorded as operations and maintenance costs for financial reporting in the year they are first recognized, but impact budgets and rates in the years in which the actual expenses occur. Because of the anticipated size of the costs in the future, this difference in the treatment of the costs in financial statements and in budgets and rates will be stark. The utility's income statement will show a large spike in costs in the year the costs are recognized that will be unrelated to either budgets or rates for that year. This may be viewed negatively by rating agencies.

Seattle City Light is permitted by accounting standards to defer recognition of these costs in financial reports into future years when the actual clean-up costs are incurred and associated cash payments are made. However, because that is not traditionally how it has been done, the independent auditor requires that the governing body (the City Council) explicitly allow City Light to change its current practice.

## **Key Issues**

City Light has already deferred environmental cleanup costs for purposes of rate-making beginning in 2013. Such deferral means that these costs are treated like capital and other deferred O&M costs (such as conservation) in terms of the source of their funding; that is, they are funded by a combination of bonds and operating cash (60% bonds and 40% operating cash over any given six-year CIP, per City Council financial policy).

- a. The proposed Resolution authorizes the use of alternative accounting standards allowed by GASBS 62 for deferral of certain environmental costs and subsequent recovery of these costs from revenue collected through future electric retail rates. Therefore, the rate treatment and the accounting treatment of these costs will be aligned.
- b. The proposed Resolution provides for the same treatment of environmental cleanup costs for both financial reporting and rate-setting purposes. Environmental costs will be recorded to expense over the period of time when the actual cash outlays occur and correspondingly when the utility recovers the outlays in rates.

City Light management will determine the amount and type of environmental costs to defer annually, basing its decision in part on the effect on retail electric rates charged to customers.

## **Next Steps**

City Light seeks to have this resolution brought before the EEC during the July 9, 2013 meeting and approved by the Council at the meeting following that date.