Many of you have probably heard of the settlement agreements in Klamath River Basin. For those who have not, the short version is that most participants signed two agreements: the Klamath Basin Restoration Agreement and the Klamath Hydroelectric Settlement Agreement. The Hydroelectric Settlement lays out a process that could culminate in the removal of four dams on the Klamath river, all owned by PacifiCorp. (A summary of the agreements is here.)

Last week, PacifiCorp formally complained that the imposition of new flow restrictions would result in less money for PacifiCorp from hydropower generation. According to PacifiCorp, "the economic conditions" resulting from these flow restrictions "will mean delaying dam removal beyond 2020." A manager from the US Bureau of Reclamation responded, "We want to formulate a way to do this that will not cause financial impact to PacifiCorp."

This idea that PacifiCorp, as owner/operator of these four hydro dams, should not bear the financial responsibility for either their continued operation or their removal, is ridiculous. Moreover, it is wrong in both a legal and an economic sense. Yet again and again, we see dam owner/operators making these economic arguments in dam relicensing hearings. The owner/operators conveniently "forget" that hydro dams are business investments that bear investment risks.

Accountants know a business investment and associated risk when they see one. FASB Statement 143, Accounting for Asset Retirement Obligations, requires corporations to recognize certain liabilities associated with "retirement of tangible long-lived assets" in their financial statements instead of using standard depreciation measures. In plainer English, corporations should recognize a charge on their balance sheet for those long-lived assets (like mines) when and if the company foresees the need to retire the asset in the future. The charge is for the cost of retiring the asset (i.e. closing the mine). An industry white paper recognizes hydro dams as one such category of long-lived assets with retirement obligations.

What's my point with all this accounting nonsense? Well, the dams have a known licensing lifespan—typically 30 to 50 years—at which point PacifiCorp must either renew the license or remove them. Therefore, from the time of construction until that license ran out, PacifiCorp could have reasonably estimated the cost of removal (with periodic updates to that estimate over time, of course). In fact, Statement 143 legally obligates Pacificorp to do so. PacifiCorp should have budgeted a certain

amount of money for eventual removal of the dams, which is why PacifiCorp is allowed to treat that dam removal cost as a liability on its annual financial statements.

And in fact PacifiCorp does recognize $639 million in total Asset Retirement Obligations in its 2009 annual report (p. 45). So why all the complaining about having to pay to remove the dams in 2020? That is what some might call “double-dipping.” PacifiCorp gets to count dam removal costs as a liability, and then gets a bonus on its next annual report when that “liability” has been paid for by ratepayers, the federal or state government, etc.

Remember, it was PacifiCorp who either built or purchased the dams as an investment and then sought to make money through electricity generation. If this was a bad investment choice, then shareholders of PacifiCorp should blame its management, not environmental regulators. Businesses sometimes lose money from their investments, as do individual investors. But PacifiCorp is using this bad investment choice as an excuse not to comply with environmental regulations and to subvert the greater interests at stake in Klamath Basin.

Perhaps it is time for a more aggressive strategy to ensure that taxpayers are not on the hook for dam removals. Requiring removal insurance or creation of a long-term bond to finance the eventual removal, for example, could force corporations to better account for the cost of dam removal from the beginning. Because pretending that dam removal is everyone else’s responsibility, except those that built and profited from the dam, is hardly good public policy.