



# Oregon

John A. Kitzhaber, MD, Governor

## Public Utility Commission

3930 Fairview Industrial Dr. SE  
Salem, OR 97302

**Mailing Address:** PO Box 1088  
Salem, OR 97308-1088

### Consumer Services

1-800-522-2404

Local: (503) 378-6600

### Administrative Services

(503) 373-7394

September 25, 2014

### *Via Electronic Filing*

OREGON PUBLIC UTILITY COMMISSION  
ATTENTION: FILING CENTER  
PO BOX 1088  
SALEM OR 97308

**RE: Docket No. UM 1633 – In the Matter of  
PUBLIC UTILITY COMMISSION OF OREGON  
Investigation into Treatment of Pension Costs in Utility Rates.**

Enclosed for electronic filing in the above-captioned docket is the Public Utility Commission Staff's Simultaneous Opening Testimony.

*/s/ Kay Barnes*

Kay Barnes

Filing on Behalf of Public Utility Commission Staff

(503) 378-5763

Email: [kay.barnes@state.or.us](mailto:kay.barnes@state.or.us)

c: UM 1633 Service List (parties)

---

**PUBLIC UTILITY COMMISSION  
OF OREGON**

---

**UM 1633**

**STAFF SIMULTANEOUS OPENING  
TESTIMONY OF**

**BRIAN BAHR**

**In the Matter of  
PUBLIC UTILITY COMMISSION OF OREGON  
Investigation into Treatment of Pension Costs in  
Utility Rates.**

**September 25, 2014**

CASE: UM 1633  
WITNESS: BRIAN BAHR

**PUBLIC UTILITY COMMISSION  
OF  
OREGON**

**STAFF EXHIBIT 300**

**Simultaneous Opening Testimony**

**September 25, 2014**

1 **Q. Please state your name, occupation, and business address.**

2 A. My name is Brian Bahr. My business address is 3930 Fairview Industrial Dr  
3 SE., Salem, Oregon 97308

4 **Q. Please describe your educational background and work experience.**

5 A. My Witness Qualification Statement is found in Exhibit Staff/101.

6 **Q. Are you the same Brian Bahr that has testified previously in this case?**

7 A. Yes.

8 **Q. What is the purpose of this testimony?**

9 A. My testimony addresses Commission questions related to the advantages and  
10 disadvantages of utilizing cash contributions as the basis for a utility company's  
11 recovery of its pension expense and the potential issues that could arise  
12 related to the transition to a cash contribution recovery basis.

13 **Q. Did you prepare an exhibit for this docket?**

14 A. Yes. I prepared Exhibit Staff/301, consisting of eight pages.

15 **Q. How is your testimony organized?**

16 A. My testimony is organized as follows:

17	Summary of Recommendations.....	2
18	Issue 1, Cash, as compared to FAS 87 .....	3
19	Issue 2, Addressing the Prepaid Pension Asset .....	12
20	Issue 3, The Regulatory Lag Issue .....	21

1                                    **SUMMARY OF STAFF'S OVERALL RECOMMENDATIONS**

2        **Q. Please summarize Staff's recommendations on the various issues in**  
3        **this docket.**

4        A. The Commission should maintain Financial Accounting Standard 87 and the  
5        related accounting guidance (cumulatively referred to here as FAS 87) as its  
6        method of allowing companies to recover pension costs. FAS 87 is fairly  
7        simple to understand, is less volatile than cash contributions, causes less  
8        administrative burden, and poses less potential risk to customers. Companies  
9        should receive a return on their ppa balances if they can demonstrate that the  
10       costs were prudently incurred and to the extent such balances were borne  
11       solely by shareholders. Because pension costs do not appear to be any more  
12       difficult to forecast in the short term than other costs recovered in rates, Staff  
13       does not recommend implementation of a balancing account to track the  
14       difference between forecasted and actual FAS 87 expense. Any accumulated  
15       deferred taxes relating to the ppa/apl balance should be included in rates only  
16       as consistent with the inclusion of the ppa/apl balance.

1

**ISSUE 1, CASH, AS COMPARED TO FAS 87**

2

**Q. How does a cash contribution recovery method differ from the use of**

3

**FAS 87?**

4

**A.** In order to understand how cash contributions might be used as a method for

5

recovery of pension costs, it is important to put it in context through a

6

comparison to the current method, FAS 87.

7

It is easy to feel overwhelmed by the concept and calculation of FAS 87; the

8

language is technical, some of the accounting concepts are not immediately

9

intuitive, and the inputs to the calculations can be difficult to determine without

10

an actuary. Staff will subsequently attempt to provide a clear, concise, simple

11

explanation of the concept and calculation of FAS 87 in order to alleviate any

12

potential confusion.

13

First, FAS 87 is not a number generated by some black box accounting

14

mystery incomprehensible to anyone untrained in accounting. The concept is

15

actually rather simple. Over the course of any given year, an employee is

16

promised retirement benefits by a company as part of their compensation

17

package. This retirement benefit is not paid until a later time, after the

18

employee retires. To meet its obligation to pay the future retirement benefit,

19

the company must put money (cash) into an investment fund now, which will

20

earn a rate of return on market investments. FAS 87 is designed to calculate

21

the actual cost to the company of providing its employees' pension benefits

22

using an equation that takes into account the actual pension benefit 'earned' by

23

the employee during the year, any payments or withdrawals from the

1 investment fund, and taking into account various factors like changes to the  
2 plan (e.g., if the plan were closed to new employees or assumptions changed  
3 about the expected market return).

4 FAS 87 is actually a fairly simple calculation. Further details regarding the  
5 concepts behind FAS 87 and how to calculate the amount can be found in  
6 testimony at Joint Testimony/200, Vogl/3-6.

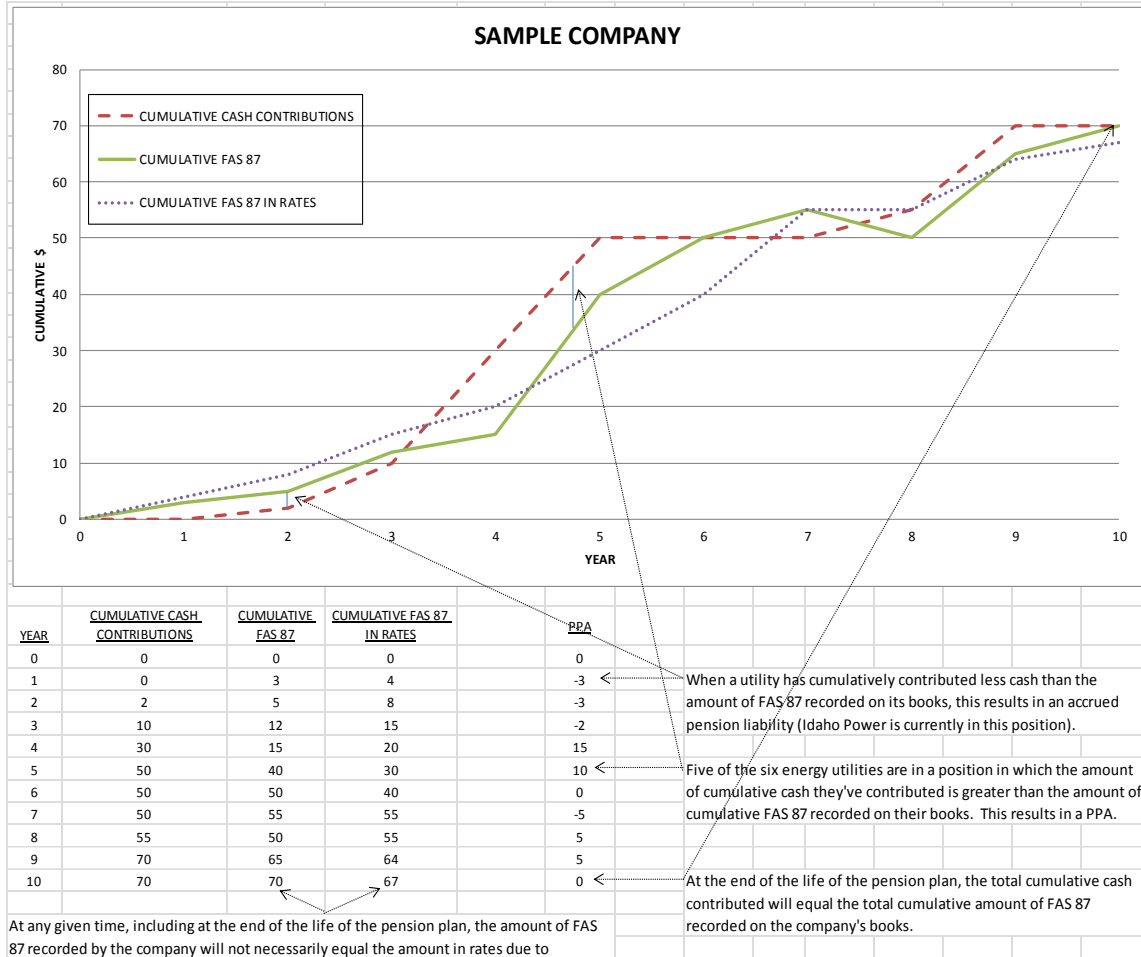
7 Essentially, FAS 87 represents the “true cost” of a company’s pension  
8 expense. The most significant concept of FAS 87 is that the cumulative  
9 amount of annual FAS 87 expense equals the total amount of cash paid into  
10 the pension fund over the life of the pension plan.<sup>1</sup> At any given point in time,  
11 however, there will be a difference between the two. This difference is tracked  
12 in an account called the prepaid pension asset or accrued pension liability  
13 account (ppa/apl). Depending on whether there has been more cash paid into  
14 the fund or FAS 87 expensed at any given time, the balance is either simply  
15 called a prepaid pension asset (ppa) or an accrued pension liability (apl).

16 Currently, Idaho Power Company (IPC) has an accrued pension liability (as of  
17 right now, the company has recorded more FAS 87 expense on its books than  
18 it has actually paid in cash into its investment fund), and the other five joint  
19 utilities participating in this docket all have prepaid pension assets at the  
20 moment. Again, the ppa/apl account is only a tracker of a temporary, or timing,  
21 difference.

---

<sup>1</sup> See Exhibit Joint Testimony/200, Vogl/11, beginning at line 17.

1 Below is a visual representation of a sample company illustrating the  
2 dynamics of how cash contributions and FAS 87 work together.



3  
4 The takeaway from the above information is that in the long run, whether a  
5 company uses FAS 87 or cash contributions as its basis for cost recovery, the  
6 result is the same. Stated differently, over the life of a pension plan,  
7 cumulative FAS 87 expense and the value of the cash contributions, whether  
8 funded by customers, company or market, will be the same. The biggest  
9 difference between FAS 87 and cash contributions is that FAS 87 is a



1 smoothing of cash contributions, and is therefore less volatile and less  
2 sensitive to swings in the market.<sup>2</sup>

3 **Q. What are the risks and benefits of using cash contributions for pension**  
4 **cost recovery, assuming starting at day one of a utility's operations?**

5 A. The most important benefit of using cash contributions as the method for  
6 pension cost recovery is that it is relatively simple. Cash payments from a  
7 company into its pension fund are easily identifiable, easy to understand, and  
8 easy to explain. An additional benefit is that, if implemented in a certain way,  
9 the companies would recover their actual costs, no more and no less,  
10 contingent on a prudence review by the Commission.

11 The potential risks, however, are considerable, and that is just with regard to  
12 the general concept of a cash basis recovery method, not even addressing any  
13 issues that could potentially arise from the transition from an established  
14 system using FAS 87 to one based on cash contributions. The primary  
15 potential risk of a cash basis method is the potential for generational inequity.

16 As explained in previous rounds of testimony (eg. Joint Utilities/200, Vogl/6-  
17 8), minimum cash payments are required of a utility company at some point in  
18 time to fund its pension plan. The principal determinant of the timing and  
19 amount of the minimum cash contributions appears to be the market.<sup>3</sup> A table  
20 included in Exhibit Staff/201, Bahr/1, illustrates how dramatic an effect a  
21 change in market returns can have on the funding status of a company's

---

<sup>2</sup> See lines 21-22 of Exhibit Idaho Power/100, MacMahon/10. "Because FAS 87 expense is naturally less volatile than cash contributions..."

<sup>3</sup> See Exhibit CUB/100, Jenks-McGovern/23-27, specifically lines 14-16 of page 25.

1 pension fund and thereby affecting its required cash contributions. Even small  
2 changes to market rates of return can significantly influence the amount of  
3 cash payments that must be made to keep a pension fund from being  
4 underfunded and incurring serious repercussions. Utility companies, however,  
5 have a significant degree of discretion in determining what amount of cash to  
6 contribute; it is not unusual for them to contribute more than the minimum  
7 required cash contribution. By nature then, cash payments to a pension fund  
8 can be quite 'lumpy' and difficult to forecast.

9 The funding level of a pension fund, and the required cash payments into the  
10 fund, is highly dependent on forecasting the rate at which the current pension  
11 fund will earn a return in the future. Because the market cannot be predicted  
12 reliably with any degree of accuracy, future cash contributions can be relatively  
13 difficult to forecast. Staff demonstrated the variability of a fund's funding level  
14 previously in testimony,<sup>4</sup> and included the table again here for convenience.

15  
16  
17  
18  
19  
20  
21  
22

---

<sup>4</sup> See Exhibit Staff/201, Bahr/1.

1 Table 1. Effect on Funded Status of Change to Return or Discount Rate



2

3 For regulatory purposes, the inconsistent timing of cash contributions can be

4 smoothed to some degree by creating a regulatory mechanism that returns to

5 the company over time, with interest, the utility’s actual cash payments. For

6 example, in Idaho, the amortization of a 2010 cash payment of \$60 million by

7 IPC was amortized over three years.<sup>5</sup> The Oregon Commission could set a

8 designated amortization period for cash contributions applicable to all utilities

9 or determine the appropriate amortization period for each utility’s cash

<sup>5</sup> See Idaho Public Utilities Commission Order No. 32248, included as Exhibit Staff/301, Bahr/1-5, or found online at the following web address:  
[http://www.puc.idaho.gov/fileroom/cases/elec/IPC/IPCE1104/ordnotc/20110519FINAL\\_ORDER\\_NO\\_32248.PDF](http://www.puc.idaho.gov/fileroom/cases/elec/IPC/IPCE1104/ordnotc/20110519FINAL_ORDER_NO_32248.PDF).

1 contributions on a case-by-case basis. Because of the difficulty in forecasting  
2 the market, and consequently the cash contributions of the utilities, each case  
3 could easily devolve into nothing more than an argument of 'my forecast'  
4 versus 'your forecast' between the various parties.

5 Each cash contribution would also need to be reviewed for prudence, as  
6 companies would not necessarily always pay the minimum required  
7 contribution amount, and paying the least required contribution amount would  
8 not always constitute a prudent decision. In the IPC case cited above, the  
9 amount of the contribution was greater than the minimum funding payment  
10 required by ERISA, and the amount was approved based on IPC's analysis  
11 indicating that paying an amount greater than the minimum required would  
12 likely save ratepayers in the long run. Conversely, FAS 87 expense needs no  
13 prudence review as it is determined by third party actuaries (to be included in  
14 rates, however, FAS 87 expense still must be reviewed for reasonableness).

15 So what is the worst case scenario for a cash contribution-based recovery  
16 method? Following are two examples of potential consequences of using cash  
17 contributions:

18 A. If there were a downturn in the market and it was projected to not  
19 recover for some time (similar to what happened following 2008),  
20 the utilities could find themselves underfunded and need to make  
21 large cash contributions in the near term in order to not incur  
22 repercussions for being underfunded. Were the market to recover  
23 and surge, the need to make any cash contributions in the future

1 would be greatly diminished, or even possibly eliminated  
2 completely. In this scenario, assuming the cash contributions were  
3 correspondingly flowed through in rates, a relatively small cohort of  
4 customers would essentially fund the entire pension cost for the  
5 benefit of all other generations of customers. FAS 87, by being  
6 less sensitive than cash contributions to market fluctuations, would  
7 smooth out these highs and lows in the market over the life of the  
8 plan.

9 B. The opposite of the above situation could occur as well. In this  
10 scenario, if the market were exceeding forecasts, little or no cash  
11 contributions would be required to be paid by the utility. However,  
12 were the market to tank unexpectedly, large amounts of cash would  
13 need to be paid to infuse the fund and keep its funding percentage  
14 within designated bounds. Again, the result of this scenario would  
15 be extreme generational inequity, as a small timeframe of  
16 ratepayers would be responsible for the cost of providing benefits to  
17 various other generations of customers.

18 **Q. Please summarize the pension cost recovery issue of FAS 87 versus**  
19 **cash contributions assuming starting at day one of a utility's**  
20 **operations.**

21 A. Using cash contributions or FAS 87 for recovery of pension costs arrives at the  
22 exact same result. Though cash contributions are more straightforward than  
23 FAS 87, FAS 87 is not as difficult to understand as its stigma might suggest.

1 Cash is more volatile and sensitive to market swings than FAS 87. Using cash  
2 rather than FAS 87 increases the potential for generational inequity. Because  
3 cash contributions must be reviewed for prudence and FAS 87 does not, using  
4 cash would increase the administrative burden on the Commission. Whether  
5 the Commission decides to use FAS 87 or cash contributions, there still remain  
6 the issues relating to the ppa/apl balances and regulatory lag.

7 **Q. Please state Staff's recommendation regarding whether the**  
8 **Commission should use FAS 87 or cash contributions for pension cost**  
9 **recovery.**

10 A. Staff recommends that the Commission continue using FAS 87 for the purpose  
11 of pension cost recovery. Most importantly, FAS 87 is less volatile than cash  
12 contributions, thus posing less generational inequity risk to customers.  
13 Additionally, as all cash contributions would need to be reviewed for prudence  
14 and FAS 87 is generally determined by third party actuaries, FAS 87 expense  
15 actually represents less administrative burden on the Commission, Staff, and  
16 Intervenors. Finally, remaining with FAS 87 rather than adopting cash avoids  
17 unnecessary issues relating to transitioning to a cash basis after years of using  
18 FAS 87.

1                    **ISSUE 2, ADDRESSING THE PREPAID PENSION ASSET**

2            **Q. If not starting at day one of a utility's operations, there is likely already**  
3            **a ppa/apl account balance; what is the ppa/apl?**

4            A. As explained above and in previous rounds of testimony, the ppa/apl is the  
5            temporary difference between the cash paid into a pension fund and the  
6            amount of pension cost expense recorded on a utility's books for accounting  
7            purposes. It can have either a positive (ppa) or negative (apl) balance. The  
8            ppa/apl is a running tally of the difference in cumulative balances, not a  
9            cumulative balance itself. Because of this, the cumulative total of ppa balances  
10           will not equal the amount of cumulative apl balances at the end of the life of the  
11           pension plan. In other words, it is possible for a utility company, over the life of  
12           its pension plan, to always have a ppa balance and never have an apl balance,  
13           or vice versa. Note that the ppa/apl exists regardless of whether cash or  
14           FAS 87 is used for setting rates; it is independent of rate regulation and cost  
15           recovery.

16           **Q. If FAS 87 continues to be used for pension cost recovery, how should**  
17           **the ppa/apl balances be addressed?**

18           A. The utilities, Staff, and Intervenors have all discussed this topic at length in  
19           previous rounds of testimony. To summarize Staff's position, utilities should  
20           receive a return on prudently incurred costs funded solely by shareholders (not  
21           ratepayers), subject to certain constraints and conditions. It is the burden of  
22           the utilities to demonstrate that their current ppa balances were built up by  
23           prudent cash payments funded solely by shareholders that have not been

1 recovered through rates, subject to legal considerations and regulatory  
2 policies. In other words, the shareholder responsibility of the ppa is zero  
3 except to the extent the utility is able to demonstrate to the Commission's  
4 satisfaction that the utility funded some or all of the ppa balance.

5 It has been stated previously in testimony that identifying and quantifying the  
6 specific individual factors ("peeling apart the onion") affecting the buildup of the  
7 utilities' ppa/apl balances is not easy, if not near impossible. IPC stated in its  
8 testimony, "The multiplicity of interrelated factors that contribute to the balance  
9 of the net pension asset or liability cannot be cleanly separated without undue  
10 complexity."<sup>6</sup> Staff also included in Exhibit Staff/103, Bahr/32-38 examples of  
11 responses from utilities to Staff data requests indicating the complexity and  
12 difficulty of "peeling apart the onion" of the ppa balances and discussed the  
13 issue in Exhibit Staff/100, Bahr/22, at line 16.

14 **Q. If the Commission adopts cash contributions for allowing companies**  
15 **to recover pension costs, how should the ppa/apl balances be**  
16 **addressed?**

17 A. Should the Commission decide to switch from a pension cost recovery method  
18 based on FAS 87 to cash contributions, the discrepancy between cumulative  
19 cash contributions and cumulative FAS 87 expenses (the ppa/apl balance)  
20 must be addressed. The Commission can allow the utilities to recover all, part,  
21 or none of the then-current balances.

---

<sup>6</sup> See Exhibit Idaho Power/100, MacMahon/10, at line 14.



1 Choosing to allow companies to recover the entire amount of their current ppa  
2 balances (presumably by allowing the amount to be amortized into rates) would  
3 very likely result in overcharges to customers as it is very unlikely the utilities  
4 funded the entire pre-paid asset.

5 On the contrary, should the Commission adopt a cash based pension cost  
6 recovery system and not allow any of the current ppa balances to be  
7 recovered, this result would be unjust to the utilities because they would not  
8 recover the monies actually contributed to the ppa, resulting in unrecovered  
9 costs and negative financial impacts. First, the utilities would forfeit recovery of  
10 the entire ppa amount. This contrasts with the current FAS 87 pension cost  
11 recovery system, where utilities will eventually recover the ppa balance.  
12 Second, the ppa balance currently sits on the companies' books as a  
13 regulatory asset, a balance the utilities expect to receive recovery of in the  
14 future. Were a utility to forfeit recovery of that asset, that utility would need to  
15 write off the asset, and that would very likely have a detrimental effect to the  
16 utility's stock value and credit rating. The company could be severely harmed  
17 by this outcome.

18 The third option would be for the utilities to receive recovery of only a part of  
19 their ppa balances, the part that the utilities can demonstrate was built up from  
20 prudent cash contributions funded by shareholders. However, even under this  
21 scenario, the utilities would still be required to write off a portion of their ppa  
22 balances, assuming they are unable to demonstrate the prudent shareholder  
23 funding of the ppa balance. The write-off would very likely have detrimental

1 effects on their finances. Additionally, as previously explained, dissecting  
2 exactly what part of the ppa balance should be included for recovery would be  
3 extremely complicated, if possible at all.

4 **Q. Why would a company need to write off its ppa balance if the**  
5 **Commission adopts a cash basis for pension cost recovery without**  
6 **granting recovery of the entire ppa balance?**

7 A. The ppa is included on a company's accounting records and financial  
8 statements as a regulatory asset. A regulatory asset is described in the  
9 footnotes of a company's financial statements as a cost that is expected to be  
10 recovered. Below is an excerpt from Note 2 of Portland General Electric's  
11 (PGE) 2013 annual report:<sup>7</sup>

12 *As a rate-regulated enterprise, the Company applies regulatory*  
13 *accounting, resulting in regulatory assets or regulatory liabilities.*  
14 *Regulatory assets represent (i) probable future revenue associated*  
15 *with certain actual or estimated costs that are expected to be*  
16 *recovered from customers through the ratemaking process, or (ii)*  
17 *probable future collections from customers resulting from revenue*  
18 *accrued for completed alternative revenue programs, provided*  
19 *certain criteria are met. Regulatory liabilities represent probable*  
20 *future reductions in revenue associated with amounts that are*  
21 *expected to be credited to customers through the ratemaking*  
22 *process. Regulatory accounting is appropriate as long as prices are*  
23 *established by or subject to approval by independent third-party*  
24 *regulators; prices are designed to recover the specific enterprise's*  
25 *cost of service; and in view of demand for service, it is reasonable*  
26 *to assume that prices set at levels that will recover costs can be*  
27 *charged to and collected from customers. Once the regulatory*  
28 *asset or liability is reflected in prices, the respective regulatory*

---

<sup>77</sup> See page 81 of Portland General Electric's 2013 annual report included as Exhibit Staff/301, Bahr/6, and the full report at the following web address:  
<http://investors.portlandgeneral.com/secfiling.cfm?filingID=784977-14-4>.

1 *asset or liability is amortized to the appropriate line item in the*  
2 *consolidated statement of income over the period in which it is*  
3 *included in prices.*

4  
5 *Circumstances that could result in the discontinuance of regulatory*  
6 *accounting include (i) increased competition that restricts the*  
7 *Company's ability to establish prices to recover specific costs, and*  
8 *(ii) a significant change in the manner in which prices are set by*  
9 *regulators from cost-based regulation to another form of regulation.*  
10 *PGE periodically reviews the criteria of regulatory accounting to*  
11 *ensure that its continued application is appropriate. Based on a*  
12 *current evaluation of the various factors and conditions,*  
13 *management believes that recovery of the Company's regulatory*  
14 *assets is probable.*

15  
16 *For additional information concerning the Company's regulatory*  
17 *assets and liabilities, see Note 6, Regulatory Assets and Liabilities.*

18 Other utilities include similar notes explaining the nature of the regulatory  
19 assets listed on their balance sheets. The utilities also include a breakdown of  
20 their account balances. Included as Exhibit Staff/301, Bahr/7-8, is Note 6 of  
21 PGE's 2013 annual report, in which the balance listed under "Pension and  
22 Other Postretirement Plans" is \$194 million. A footnote indicates this amount  
23 does not include a return on investment. Part of Note 6 also explains:

24 *Pension and other postretirement plans represents unrecognized*  
25 *components of the benefit plans' funded status, which are*  
26 *recoverable in customer prices when recognized in net periodic*  
27 *benefit cost.*

28 Essentially, the companies represent to investors that the ppa balance is  
29 expected to be recovered over time through FAS 87. Were the Commission to  
30 maintain FAS 87 and grant a return on the ppa (which is currently shown as an

1 amount that does not earn a return), the company would receive recovery of  
2 more than expected, which would have financial impacts on its share price.  
3 Alternatively, if the Commission switched a cash basis and allowed less than  
4 the full amount of the ppa to be recovered, the companies would need to write  
5 off part of their regulatory asset amount and possibly restate their financial  
6 statements. The only Commission decision in this docket that will not affect a  
7 company's financial statements is to maintain FAS 87 and grant no return on  
8 the ppa balances.

9 **Q. How is IPC in a different situation than the other utilities?**

10 A. In its filed testimony, IPC aptly explains how and why it is in a different situation  
11 than the other five energy utilities participating in this docket.<sup>8</sup> In summary,  
12 IPC currently is the only company of the six to have an apl balance rather than  
13 a ppa. IPC has stated this is caused by various factors, the primary of which is  
14 that IPC has maintained its defined pension plans open, whereas other utilities  
15 have closed their plans, thereby putting upward pressure on the ppa balance.  
16 IPC expects its apl balance to decrease in the future as its cash contributions  
17 increase relative to its FAS 87 expense.

18 **Q. Please summarize the issues relating to the companies' current**  
19 **ppa/apl balances.**

20 A. The ppa/apl is a running tally of the difference in cash paid into a pension fund  
21 and the expense accounted for on a utility's books and does not take into  
22 account the amount used for regulatory recovery of pension cost (eg. the ppa

---

<sup>8</sup> See Exhibit Idaho Power/100, MacMahon/1-11, particularly beginning on line 15 of page 6.

1 exists regardless of whether cash or FAS 87 is used by companies to recover  
2 pension cost). Of the six utilities participating in this general investigation  
3 docket, only IPC has an apl balance. The other utilities assert their ppa  
4 balances were exacerbated by federal regulations passed in 2006 and the  
5 market events of 2008,<sup>9</sup> though the actual effect of these events on the ppa  
6 balances has been disputed.<sup>10</sup>

7 Should the Commission decide to maintain the use of FAS 87 for allowing  
8 companies recovery of pension costs, as recommended by Staff, the  
9 Commission must resolve the initial issue that brought about this docket:  
10 should companies receive a return on all, some, or none of their ppa balances?  
11 This issue has been exhaustively addressed in prior rounds of testimony. Staff  
12 has recommended previously that, in principle, a utility should receive a return  
13 on prudently incurred costs borne by shareholders not yet recovered from  
14 ratepayers within the regulatory construct. It is the burden of the utilities to  
15 demonstrate that the costs on which they seek a return are indeed prudent and  
16 represent costs solely to shareholders. However, to date, and after nearly two  
17 years of investigation in this docket, the utilities have not met that burden and  
18 have indicated that the degree of complexity to do so makes it very difficult, if  
19 possible at all.

20 Staff restates its recommendation that utilities should be allowed a return on a  
21 portion of their ppa balances, contingent on their ability to demonstrate the ppa  
22 balance represents prudent costs incurred by shareholders, and subject to

---

<sup>9</sup> See Exhibit Joint Utilities/200, Vogl/9 and 12, at line 21.

<sup>10</sup> See Exhibit Staff/100, Bahr/6, and Exhibit CUB/100, Jenks-McGovern/9.

1 certain constraints. However, in the event the utility cannot make such a  
2 demonstration, no utility write-off is necessary as the utility will recover its ppa  
3 balance through FAS 87. (In the cash basis option, Staff does not see any  
4 alternative than for the utility to write off the portion of its ppa it cannot  
5 demonstrate was prudent and funded solely by shareholders.) The companies  
6 represent to investors in their financial statements that their ppa balances are  
7 not expected to earn a return and will be recovered over time through FAS 87.

8 Should the Commission decide to adopt a cash basis for pension cost  
9 recovery, the Commission would be placed in a difficult situation in which either  
10 customers are likely overcharged or companies are harmed by having to write  
11 off current assets, depending on how much, if any, of the ppa is allowed to be  
12 recovered. Granting a recovery of all of the ppa balance results in the likely  
13 overcharging of customers. Granting recovery of some of the ppa balance puts  
14 the companies in a difficult situation, in that they must immediately write off a  
15 portion of an asset currently on their books for which regulatory recovery is  
16 expected. Additionally, the write off of these amounts could have tax  
17 consequences, negatively impact stock prices, and affect earnings tests and  
18 other regulatory mechanisms.

19 **Q. Please state Staff's recommendation regarding how the Commission**  
20 **should address the current balances of the utilities' ppa/apl accounts.**

21 A. Staff's recommendation regarding the ppa/apl depends entirely on whether the  
22 Commission adopts Staff's recommendation to maintain FAS 87 expense for  
23 allowing companies recovery of pension costs. If FAS 87 is used, Staff

1 recommends that companies receive a return on a portion of their ppa  
2 balances, subject to certain constraints and conditions as previously outlined.  
3 Should the Commission decide to adopt a cash basis of pension cost recovery,  
4 Staff similarly recommends that only a portion of companies' current ppa  
5 balances should be amortized into rates, subject to certain constraints and  
6 conditions. In order to maintain consistency in application of regulatory  
7 principles, Staff also recommends that IPC be included in whatever outcome  
8 the Commission decides (eg. refunding to customers a return on a current apl  
9 balance rather than charging customers a return on a ppa balance).

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22

### ISSUE 3, THE REGULATORY LAG ISSUE

**Q. Please describe the regulatory lag issue.**

A. The principle issue with regulatory lag is that neither cash nor FAS 87 resolves the question the Commission must answer of whether pension costs merit being removed from the general rate making process and receiving dollar for dollar recovery.

Before the inception of FAS 87, companies forecasted their cash contributions in a test year, and these were included in the revenue requirement just like any other cost. However, FAS 87 was adopted because it smoothed out the volatility of the cash contributions, though it was still a forecasted amount that was included in rates. Whether cash contributions or FAS 87 is used, if the amount included in rates is forecasted, the amount in rates will very rarely, if ever, equal the actual expense. This discrepancy between forecast and actual amounts results in regulatory lag.

There are two basic ways to ameliorate the problem of regulatory lag (should the Commission decide it needs to be addressed). First, if a cash basis is used, the Commission could use a method in which a company files a deferral application each time a cash contribution is made to its pension fund. The application would request from the Commission approval of the prudence of the cash contribution and of the proposed amortization period. In this way, assuming all cash contributions are deemed prudent, the utility would get a dollar for dollar recovery of its pension costs. As discussed above, there are



1 advantages and drawbacks of using a cash basis, namely ease of processing  
2 and potential generational inequity, respectively.

3 The second way the regulatory lag issue could be addressed is through a  
4 balancing account, which could true up forecasted and actual FAS 87 amounts.  
5 If the Commission decided that pension costs merit dollar for dollar recovery,  
6 this result could be achieved by implementing a balancing account between the  
7 forecasted FAS 87 in rates and actual FAS 87 expense. The administration of  
8 such a balancing account would consist of a true-up between actual FAS 87  
9 expense incurred by a company and the amount included in rates.

10 **Q. What are the pros and cons of using cash contribution deferrals for the**  
11 **purpose of addressing regulatory lag?**

12 A. The benefit of using a method in which companies request approval to defer  
13 cash payments paid into the pension fund is simple: the utility gets  
14 100 percent recovery of cash expended (assuming prudence) within a  
15 designated period of recovery time (the amortization period). When a utility  
16 makes a payment, it would then file a deferral application. The cash payment  
17 would be reviewed by parties for prudence, and an amortization period would  
18 be recommended based on the amount of the cash contribution and expected  
19 future cash contribution amount and frequency. The Commission would decide  
20 the prudence of each cash contribution and the appropriate amount of time to  
21 amortize it into rates. Note that using deferral applications only addresses the  
22 issue of regulatory lag, not the issue of potential generational inequity  
23 discussed in Section I of this testimony.

1 **Q. What are the pros and cons of using a FAS 87 balancing account for**  
2 **the purpose of addressing regulatory lag?**

3 A. A balancing account to reconcile forecasted FAS 87 with actual FAS 87  
4 expense would also address the issue of regulatory lag inherent in difficult-to-  
5 forecast expenses. Similar to balancing accounts for other expenses, this  
6 balancing account would reconcile the forecasted expense included in rates  
7 with the actual expense as it is incurred, thereby ensuring that customers pay  
8 only the actual expense incurred, which as explained above in Section I,  
9 equals the cash contributed, only smoothed over time.

10 **Q. Please summarize the issues related to regulatory lag.**

11 A. Whether forecasted cash contributions or FAS 87 expense is used for pension  
12 cost recovery, the difference between forecasted amounts and actual amounts  
13 results in regulatory lag. Whether FAS 87 remains in use or cash contributions  
14 are adopted for pension cost recovery, the Commission must also decide if the  
15 pension cost should continue to be forecast, or whether the cost merits  
16 extraordinary treatment in order to eliminate regulatory lag and the potential  
17 inaccurate forecast of costs. Should the Commission decide to eliminate lag,  
18 there are two basic options.

19 If the Commission decides to adopt cash contributions on a going forward  
20 basis for pension cost recovery, regulatory lag can be eliminated through the  
21 use of deferrals. Should the Commission decide to maintain FAS 87 for  
22 pension cost recovery, a balancing account would achieve the same effect of  
23 eliminating regulatory lag.

1 **Q. Please state Staff's recommendation regarding regulatory lag.**

2 A. The companies have not demonstrated that pension costs are any more  
3 difficult to forecast accurately than any other major regulatory cost such as  
4 wages and salaries. Therefore, Staff does not recommend a carve out for  
5 pension costs or use a of balancing account. Should the Commission decide  
6 to remove regulatory lag, Staff would recommend the use of deferrals for cash  
7 contributions or a balancing account for FAS 87 expense.

8 **Q. Please restate Staff's overall recommendations in this docket.**

9 A. The Commission should maintain FAS 87 as its method of allowing companies  
10 to recover pension costs. Companies should receive a return on their ppa  
11 balances if they can demonstrate that the costs were prudently incurred and  
12 borne solely by shareholders. As pension costs don't appear to be more  
13 difficult to forecast than other costs included in rates, Staff does not believe  
14 regulatory lag needs to be removed through the use of a balancing account or  
15 other mechanism. Any accumulated deferred taxes should be treated  
16 consistently with the treatment of the ppa/apl balance.

17 **Q. Does this conclude your direct testimony?**

18 A. Yes.

19

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

Staff/301  
Bahr/1

<b>IN THE MATTER OF THE APPLICATION</b>	)	
<b>OF IDAHO POWER COMPANY TO</b>	)	<b>CASE NO. IPC-E-11-04</b>
<b>INCREASE ITS RATES FOR ELECTRIC</b>	)	
<b>SERVICE TO RECOVER ITS 2010 PENSION</b>	)	<b>ORDER NO. 32248</b>
<b>CASH CONTRIBUTION</b>	)	

---

On March 15, 2011, Idaho Power Company filed an Application requesting an increase in customer rates to recover a \$60 million contribution the Company made in 2010 to its Defined Benefit Pension Plan. The Company's actuary, Milliman, Inc., determined that the Company would have to make a contribution in 2010 to satisfy requirements of the Employee Retirement Income Security Act (ERISA). Milliman determined that the minimum funding required by ERISA was approximately \$5.8 million, but that if the Company contributed only the minimum amount, its funding level at December 31, 2010, would be below 80%. Funding below 80% triggers certain plan restrictions, notice requirements to participants, and limitations on future funding alternatives. The Company determined that a \$60 million contribution would maintain an 80% funding level, avoiding the plan restrictions, but acknowledged the amount is less than adequate to cover the full minimum funding needs through 2011. The Application states that a contribution for the 2011 plan year of \$3 million is due by October 15, 2011, and that an additional \$5.7 million is due by January 15, 2012. The Company does not request recovery of these anticipated 2011 contributions in this case.

Idaho Power and Milliman estimated that over a 10-year period, the total contributions required for the plan will be approximately \$11 million less by contributing \$60 million in 2010 rather than the minimum required \$5.8 million. In addition, the Company asserts that the larger contribution in 2010 will result in savings relating to the variable portion of Pension Benefit Guarantee Corporation premiums of nearly \$1 million for the years 2010-2012.

Pursuant to Commission Order No. 31091, the Company is currently collecting \$5,416,796 in rates each year to recover pension plan contributions. Idaho Power proposes to increase the amount it currently collects in rates to \$17,153,713 per year, an increase of \$11,736,917, to recover the amount the Company contributed in 2010. The Company proposal

reflects a three-year amortization of the deferral balance in the balancing account, starting June 1, 2011.

Staff/301  
Bahr/2

Idaho Power's Application states that an increase of \$11.7 million in customer rates equates to a 1.39% increase for all customer classes. The Company requests that the proposed increase take effect at the same time that rate adjustments relating to fixed costs and power costs take effect. The Company asserts that the combination will result in a net decrease in customer rates effective June 1, 2011.

On March 30, 2011, the Commission issued a Notice of Application and Notice of Modified Procedure, establishing a 21-day comment period and 7-day reply comment period. Written comments were filed by Commission Staff and the Industrial Customers of Idaho Power (ICIP). The Company filed reply comments on April 27, 2011. In addition, approximately 16 Idaho Power customers filed written comments.

#### **WRITTEN COMMENTS**

In its written comments, Staff stated no objection to the Company's request to increase rates to recover its 2010 employee pension plan contribution, but expressed concern about the cost of the Company's employee retirement plan and the level of benefits for Company employees that are paid by customers. Staff supported the Company's proposal to amortize the recovery over three years, recognizing that extending the amortization period could create larger increases in future years. Staff does not contest the amount of the \$60 million contribution or the Company's determination that the amount of the contribution was necessary.

Staff expressed concern that the level of contributions expected to be made in the next few years will be inadequate to maintain a reasonable balance in the pension plan balancing account. Staff considered the potential remaining balance in the account under four different scenarios of annual recovery: \$17.1 million, as proposed in this case, \$20 million, \$25 million, and \$30 million. With the expected required contributions, Staff believes that an annual recovery of \$17.1 million, as proposed by the Company, will be inadequate to eliminate the significant balance in the balancing account as of December 31, 2019.

ICIP in its written comments noted that Idaho Power has identified significant pension plan contributions through 2015. The Company's Form 10-K filed with the Securities and Exchange Commission (SEC) states that minimum required contributions to the defined pension plan are estimated to be approximately \$3 million in 2011, \$46 million in 2012, \$36

million in 2013, \$32 million in 2014, and \$31 million in 2015. ICIP Comments, p. 4. Combined with the \$60 million contributed in 2010, the Company estimates total plan contributions will be \$208 million by 2015. ICIP estimates that this will equate to a 20% rate increase “necessary solely to keep Idaho Power’s pension fund solvent for existing employees.” ICIP Comments, p. 6. ICIP recommends the Commission mitigate the rate impact in this case by increasing the amortization period to five years rather than the three years proposed by the Company. ICIP determined that the longer amortization period would lower the proposed rate increase from \$11.7 million annually for three years to \$4.9 million per year for five years, and produce a 0.61% rate increase. ICIP Comments, p. 8.

Sixteen residential customers and one commercial customer filed comments. All of the customer comments oppose the recovery of the pension contribution in customer rates. Most of the residential customers asserted that customers should not pay for rate increases to fund pension plan contributions, especially in the current economic conditions. The commercial customer that filed comments, Boise Inc., expressed concern “about ongoing increases to recover costs associated with the Company’s defined benefit pension plan.” Boise Inc. discussed its own experience with “the challenges of funding pension plans and providing competitive, sustainable employee benefits,” and recommended the Commission “direct the company to not only study, but propose *meaningful* changes to its retirement and other employee benefits in order to mitigate impacts to rate payers.” Boise Inc. suggested Idaho Power’s “shareholders should share in the burden, particularly since an organization’s employees work to benefit not only customers, but also shareholders by creating shareholder value.”

Idaho Power filed reply comments on April 27, 2011. Idaho Power contends that ICIP’s determination that a 20% rate increase will be necessary to recover the Company’s anticipated pension plan contributions “dramatically overstates the potential impact.” Idaho Power Reply Comments, p. 2. The 20% rate increase projected by ICIP would recover the entire contributions in one year, and does not account for a reasonable amortization period. Idaho Power also disagreed with ICIP’s proposal to extend the amortization to five years, stating that “extending the proposed amortization beyond the three years only exacerbates the timeframe of the pay down of the balancing account.” Idaho Power Reply Comments, p. 3.

## COMMISSION FINDINGS

Staff/301  
Bahr/4

We begin by noting that the Company's Application for recovering contributions to its pension plan is consistent with past Commission directives regarding those contributions. In Order No. 30333, the Commission authorized the Company to (1) change from accrual accounting to cash accounting to determine future contributions, and (2) defer future defined benefit pension plan contributions and record them as a regulatory asset. In Order No. 31003 issued February 17, 2010, the Commission authorized the Company to create a regulatory balancing account in which the deferred cash contributions to the pension plan would be amortized and recovered in rates. None of the comments filed in this case question the propriety of the Company's decision, given the ERISA requirements, to make a \$60 million contribution to its defined benefit pension plan in 2010.

On the record in this case, the Commission has determined to approve Idaho Power's request to recover its 2010 contribution to the Company's defined benefits pension plan through a 1.39% rate increase during the next three years. A longer amortization period would result in a smaller increase, but raise the potential for even higher rate increases in the future if projected contributions are made to the plan. Accordingly, the Commission finds three years to be the appropriate amortization period for capturing the 2010 contribution.

The Commission remains concerned, however, that Idaho Power's defined benefits pension plan places the burden solely on customers to pay all increased costs of the plan. We noted in Order No. 32239 that the Company annually reviews its retirement benefits package, and we directed the Company "to broaden its review to include total employee compensation and benefits, compared with employee compensation provided by other utility companies." Order No. 32239, p. 6. The Company's review should also include consideration of ways to enable shareholders and employees to participate in the costs of Idaho Power's defined benefit pension plan.

## ORDER

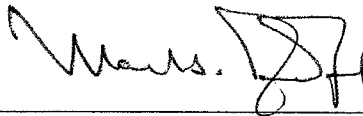
IT IS HEREBY ORDERED that the Application of Idaho Power Company to increase its rates to recover the amortization of its 2010 cash contribution to its defined benefit pension plan is approved. Idaho Power may increase its customer rates 1.39% to collect an additional \$11,736,917 per year for three years, effective June 1, 2011.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of 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.

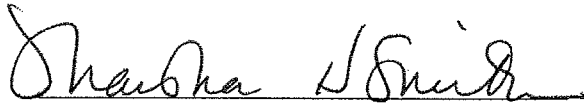
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 19th day of May 2011.



PAUL KJELLANDER, PRESIDENT

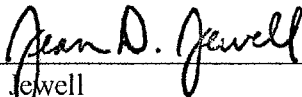


MACK A. REDFORD, COMMISSIONER



MARSHA H. SMITH, COMMISSIONER

ATTEST:



Jean D. Jewell  
Commission Secretary

O:IPC-E-11-04\_ws2



**PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued**

quoted market prices. Realized and unrealized gains and losses on the Non-qualified benefit plan trust assets are included in Other income, net. Realized and unrealized gains and losses on the Nuclear decommissioning trust fund assets are recorded as regulatory liabilities or assets, respectively, for future ratemaking. The cost of securities sold is based on the average cost method.

### ***Regulatory Accounting***

#### ***Regulatory Assets and Liabilities***

As a rate-regulated enterprise, the Company applies regulatory accounting, resulting in regulatory assets or regulatory liabilities. Regulatory assets represent (i) probable future revenue associated with certain actual or estimated costs that are expected to be recovered from customers through the ratemaking process, or (ii) probable future collections from customers resulting from revenue accrued for completed alternative revenue programs, provided certain criteria are met. Regulatory liabilities represent probable future reductions in revenue associated with amounts that are expected to be credited to customers through the ratemaking process. Regulatory accounting is appropriate as long as prices are established by or subject to approval by independent third-party regulators; prices are designed to recover the specific enterprise's cost of service; and in view of demand for service, it is reasonable to assume that prices set at levels that will recover costs can be charged to and collected from customers. Once the regulatory asset or liability is reflected in prices, the respective regulatory asset or liability is amortized to the appropriate line item in the consolidated statement of income over the period in which it is included in prices.

Circumstances that could result in the discontinuance of regulatory accounting include (i) increased competition that restricts the Company's ability to establish prices to recover specific costs, and (ii) a significant change in the manner in which prices are set by regulators from cost-based regulation to another form of regulation. PGE periodically reviews the criteria of regulatory accounting to ensure that its continued application is appropriate. Based on a current evaluation of the various factors and conditions, management believes that recovery of the Company's regulatory assets is probable.

For additional information concerning the Company's regulatory assets and liabilities, see Note 6, Regulatory Assets and Liabilities.

#### ***Power Cost Adjustment Mechanism***

PGE is subject to a power cost adjustment mechanism (PCAM) as approved by the OPUC. Pursuant to the PCAM, the Company can adjust future customer prices to reflect a portion of the difference between each year's forecasted net variable power costs (NVPC) included in customer prices (baseline NVPC) and actual NVPC. PGE is subject to a portion of the business risk or benefit associated with the difference between actual NVPC and baseline NVPC by application of an asymmetrical "deadband," which ranges from \$15 million below to \$30 million above baseline NVPC. NVPC consists of (i) the cost of power purchased and fuel used to generate electricity to meet PGE's retail load requirements, as well as the cost of settled electric and natural gas financial contracts, all of which is classified as Purchased power and fuel in the Company's consolidated statements of income; and is net of (ii) wholesale sales, which are classified as Revenues, net in the consolidated statements of income.

To the extent actual NVPC, subject to certain adjustments, is outside the deadband range, the PCAM provides for 90% of the variance to be collected from or refunded to customers, subject to a regulated earnings test. Pursuant to the regulated earnings test, a refund will occur only to the extent that it results in PGE's actual regulated return on equity (ROE) for that year being no less than 1% above the Company's latest authorized ROE, while a collection will occur only to the extent that it results in PGE's actual regulated ROE for that year being no greater than 1% below the Company's authorized ROE. PGE's authorized ROE was 10% for 2013, 2012 and 2011.

Any estimated refund to customers pursuant to the PCAM is recorded as a reduction in Revenues in the Company's consolidated statements of income, while any estimated collection from customers is recorded as a reduction in

**PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued**

**NOTE 6: REGULATORY ASSETS AND LIABILITIES**

Staff/301

Bahr/7

The majority of PGE's regulatory assets and liabilities are reflected in customer prices and are amortized over the period in which they are reflected in customer prices. Items not currently reflected in prices are pending before the regulatory body as discussed below.

Regulatory assets and liabilities consist of the following (dollars in millions):

	Weighted Average Remaining Life <sup>(1)</sup>	As of December 31,			
		2013		2012	
		Current	Noncurrent	Current	Noncurrent
<b>Regulatory assets:</b>					
Price risk management <sup>(2)</sup>	6 years	\$ 36	\$ 140	\$ 123	\$ 71
Pension and other postretirement plans <sup>(2)</sup>	<sup>(3)</sup>	—	194	—	321
Deferred income taxes <sup>(2)</sup>	<sup>(4)</sup>	—	76	—	80
Deferred broker settlements <sup>(2)</sup>	1 year	12	1	20	1
Debt issuance costs <sup>(2)</sup>	8 years	—	17	—	22
Deferred capital projects	2 years	16	18	—	16
Other <sup>(5)</sup>	Various	2	18	1	13
<b>Total regulatory assets</b>		<b>\$ 66</b>	<b>\$ 464</b>	<b>\$ 144</b>	<b>\$ 524</b>
<b>Regulatory liabilities:</b>					
Asset retirement removal costs <sup>(7)</sup>	<sup>(4)</sup>	\$ —	\$ 747	\$ —	\$ 692
Trojan decommissioning activities	<sup>(6)</sup>	—	41	—	—
Asset retirement obligations <sup>(7)</sup>	<sup>(4)</sup>	—	39	—	39
Other	Various	1	38	12	34
<b>Total regulatory liabilities</b>		<b>\$ 1 <sup>(8)</sup></b>	<b>\$ 865</b>	<b>\$ 12 <sup>(8)</sup></b>	<b>\$ 765</b>

(1) As of December 31, 2013 . . .

(2) Does not include a return on investment.

(3) Recovery expected over the average service life of employees. For additional information, see Note 2, Summary of Significant Accounting Policies.

(4) Recovery expected over the estimated lives of the assets.

(5) Of the total other unamortized regulatory asset balances, a return is recorded on \$16 million and \$15 million as of December 31, 2013 and 2012, respectively.

(6) Refund period not yet determined.

(7) Included in rate base for ratemaking purposes.

(8) Included in Accrued expenses and other current liabilities on the consolidated balance sheets.

As of December 31, 2013, PGE had regulatory assets of \$59 million earning a return on investment at the following rates: (i) \$34 million at PGE's cost of debt of 6.065%; (ii) \$15 million earning a return by inclusion in rate base; (iii) \$9 million at the approved rate for deferred accounts under amortization, ranging from 1.38% to 2.24%, depending on the year of approval; and (iv) \$1 million at PGE's cost of capital of 8.033% .

*Price risk management* represents the difference between the net unrealized losses recognized on derivative instruments related to price risk management activities and their realization and subsequent recovery in customer prices. For further information regarding assets and liabilities from price risk management activities, see Note 5, Price Risk Management.

**PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued**

Staff/301  
Bahr/8

*Pension and other postretirement plans* represents unrecognized components of the benefit plans' funded status, which are recoverable in customer prices when recognized in net periodic benefit cost. For further information, see Note 10, Employee Benefits.

*Deferred income taxes* represents income tax benefits resulting from property-related timing differences that previously flowed to customers and will be included in customer prices when the temporary differences reverse. For further information, see Note 11, Income Taxes.

*Deferred broker settlements* consist of transactions that have been financially settled by clearing brokers prior to the contract delivery date. These gains and losses are deferred for future recovery in customer prices during the corresponding contract settlement month.

*Debt issuance costs* represents unrecognized debt issuance costs related to debt instruments retired prior to the stipulated maturity date.

*Deferred capital projects* represents costs related to four capital projects that were deferred for future accounting treatment pursuant to the Company's 2011 General Rate Case. The recovery of these project costs in future customer prices is subject to a regulated earnings test and approval by the OPUC.

*Asset retirement removal costs* represent the costs that do not qualify as AROs and are a component of depreciation expense allowed in customer prices. Such costs are recorded as a regulatory liability as they are collected in prices, and are reduced by actual removal costs incurred.

*Trojan decommissioning activities* represent a \$44 million settlement for the reimbursement of certain monitoring costs incurred related to spent nuclear fuel at the Company's Trojan nuclear power plant (Trojan). The proceeds will benefit customers in future regulatory proceedings and offset amounts previously collected from customers in relation to Trojan decommissioning activities.

*Asset retirement obligations* represent the difference in the timing of recognition of (i) the amounts recognized for depreciation expense of the asset retirement costs and accretion of the ARO, and (ii) the amount recovered in customer prices.

**NOTE 7: ASSET RETIREMENT OBLIGATIONS**

ARO's consist of the following (in millions):

	As of December 31,	
	2013	2012
Trojan decommissioning activities	\$ 41	\$ 42
Utility plant	49	39
Non-utility property	10	13
Asset retirement obligations	<u>\$ 100</u>	<u>\$ 94</u>

*Trojan decommissioning activities* represents the present value of future decommissioning expenditures for the plant, which ceased operation in 1993. The remaining decommissioning activities primarily consist of the long-term operation and decommissioning of the ISFSI, an interim dry storage facility that is licensed by the Nuclear Regulatory Commission. The ISFSI is to house the spent nuclear fuel at the former plant site until an off-site storage facility is available. Decommissioning of the ISFSI and final site restoration activities will begin once shipment of all the spent fuel to a United States Department of Energy (USDOE) facility is complete, which is not expected prior to 2033.

CERTIFICATE OF SERVICE

UM 1633

I certify that I have, this day, served the foregoing document upon all parties of record in this proceeding by delivering a copy in person or by mailing a copy properly addressed with first class postage prepaid, or by electronic mail pursuant to OAR 860-001-0180, to the following parties or attorneys of parties.

Dated this 25th day of September, 2014 at Salem, Oregon

*Kay Barnes*

---

Kay Barnes

Public Utility Commission

3930 Fairview Industrial Drive SE

Salem, Oregon 97302

Telephone: (503) 378-5763

UM 1633 - SERVICE LIST

EDWARD FINKLEA (C) (W) EXECUTIVE DIRECTOR	326 FIFTH ST LAKE OSWEGO OR 97034 efinklea@nwigu.org
<b>AVISTA CORPORATION</b>	
DAVID J MEYER (C) (W) VICE PRESIDENT & CHIEF COUNSEL	PO BOX 3727 SPOKANE WA 99220-3727 david.meyer@avistacorp.com
<b>AVISTA UTILITIES</b>	
ELIZABETH ANDREWS (C) (W)	PO BOX 3727 SPOKANE WA 99220-3727 liz.andrews@avistacorp.com
PATRICK EHRBAR (C) (W) MANAGER, RATES & TARIFFS	PO BOX 3727 SPOKANE WA 99220-3727 pat.ehrbar@avistacorp.com
<b>CABLE HUSTON BENEDICT HAAGENSEN &amp; LLOYD</b>	
TOMMY A BROOKS (C) (W)	1001 SW FIFTH AVE, STE 2000 PORTLAND OR 97204-1136 tbrooks@cablehuston.com
<b>CABLE HUSTON BENEDICT HAAGENSEN &amp; LLOYD LLP</b>	
CHAD M STOKES (C) (W)	1001 SW 5TH - STE 2000 PORTLAND OR 97204-1136 cstokes@cablehuston.com
<b>CASCADE NATURAL GAS</b>	
PAMELA ARCHER (C) (W) SUPERVISOR-REGULATORY ANALYSIS	8113 W. GRANDRIDGE BLVD. KENNEWICK WA 99336 pamela.archer@cngc.com
MICHAEL PARVINEN (C) (W) DIRECTOR - REGULATORY AFFAIRS	8113 W GRANDRIDGE BLVD KENNEWICK WA 99336-7166 michael.parvinen@cngc.com
MARYALICE ROSALES (C) (W) REGUALTORY ANALYST I	8113 W GRANDRIDGE BLVD KENNEWICK WA 99336 maryalice.rosales@cngc.com
<b>CITIZENS' UTILITY BOARD OF OREGON</b>	
OPUC DOCKETS (W)	610 SW BROADWAY, STE 400 PORTLAND OR 97205 dockets@oregoncub.org

ROBERT JENKS (C) (W)	610 SW BROADWAY, STE 400 PORTLAND OR 97205 bob@oregoncub.org
G. CATRIONA MCCRACKEN (C) (W)	610 SW BROADWAY, STE 400 PORTLAND OR 97205 catriona@oregoncub.org
<b>DAVISON VAN CLEVE PC</b>	
S BRADLEY VAN CLEVE (C) (W)	333 SW TAYLOR - STE 400 PORTLAND OR 97204 bvc@dvclaw.com
<b>DAVISON VAN CLEVE, PC</b>	
TYLER C PEPPE (C) (W)	333 SW TAYLOR SUITE 400 PORTLAND OR 97204 tcp@dvclaw.com
<b>IDAHO POWER COMPANY</b>	
REGULATORY DOCKETS (W)	PO BOX 70 BOISE ID 83707-0070 dockets@idahopower.com
LISA D NORDSTROM (C) (W)	PO BOX 70 BOISE ID 83707-0070 lnordstrom@idahopower.com
<b>LARKIN &amp; ASSOCIATES PLLC</b>	
RALPH SMITH (C) (W)	15728 FARMINGTON RD LIVONIA MI 48154 rsmithla@aol.com
<b>MCDOWELL RACKNER &amp; GIBSON PC</b>	
LISA F RACKNER (C) (W)	419 SW 11TH AVE., SUITE 400 PORTLAND OR 97205 dockets@mcd-law.com
<b>NORTHWEST NATURAL</b>	
E-FILING (W)	220 NW 2ND AVE PORTLAND OR 97209 efiling@nwnatural.com
MARK R THOMPSON (C) (W)	220 NW 2ND AVE PORTLAND OR 97209 mark.thompson@nwnatural.com

<b>PACIFIC POWER</b>	
R. BRYCE DALLEY (C) (W)	825 NE MULTNOMAH ST., STE 2000 PORTLAND OR 97232 bryce.dalley@pacificorp.com
SARAH WALLACE (C) (W)	825 NE MULTNOMAH ST STE 1800 PORTLAND OR 97232 sarah.wallace@pacificorp.com
<b>PACIFICORP, DBA PACIFIC POWER</b>	
OREGON DOCKETS (W)	825 NE MULTNOMAH ST, STE 2000 PORTLAND OR 97232 oregondockets@pacificorp.com
<b>PORTLAND GENERAL ELECTRIC</b>	
DOUGLAS C TINGEY (C) (W)	121 SW SALMON 1WTC1301 PORTLAND OR 97204 doug.tingey@pgn.com
JAY TINKER (C) (W)	121 SW SALMON ST 1WTC-0702 PORTLAND OR 97204 pge.opuc.filings@pgn.com
<b>PUBLIC UTILITY COMMISSION OF OREGON</b>	
BRIAN BAHR (C) (W)	PO BOX 1088 SALEM OR 97308-1088 brian.bahr@state.or.us
<b>PUC STAFF--DEPARTMENT OF JUSTICE</b>	
JASON W JONES (C) (W)	BUSINESS ACTIVITIES SECTION 1162 COURT ST NE SALEM OR 97301-4096 jason.w.jones@state.or.us