



Portland General Electric Company
121 SW Salmon Street • Portland, Oregon 97204
PortlandGeneral.com

August 22, 2014

Via E-Filing and US Mail
puc.filingcenter@state.or.us

Public Utility Commission of Oregon
3930 Fairview Industrial Dr. SE
PO Box 1088
Salem, OR 97308-1088

Re: UM 1623 Application for Reauthorization of Deferral Accounting of Excess Pension Costs and Carrying Costs on Cash Contributions

Filing Center:

Enclosed for filing are the original and five copies of Portland General Electric's Application for Reauthorization of Deferral Accounting of Excess Pension Costs and Carrying Cost on Cash Contributions. This document is being filed by electronic mail with the Filing Center. We have provided notification of this application to the UE 283 and UM 1623 Service Lists.

If you have any questions or require further information, please call me at (503) 464-7580 or Christopher Liddle at (503) 464-7458. Please direct all formal correspondence, questions, or requests to the following e-mail address: pge.opuc.filings@pgn.com.

Sincerely,

A handwritten signature in blue ink, appearing to read "Patrick G. Hager", is written over a faint, larger version of the same signature.

Patrick G. Hager
Manager, Regulatory Affairs

PGH:sp

Encls.

cc: UE 283 Service List
UM 1623 Service List

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1623

In the Matter of the Application of Portland General Electric Company for an Order Approving the Deferral of Excess Pension Costs and Carrying Costs on Cash Contributions

Application for Deferral of Excess Pension Costs and Carrying Costs on Cash Contributions or, in the Alternative, Reauthorization of Deferral of Excess Pension Costs and Carrying Costs on Cash Contributions

Pursuant to ORS 757.259 and OAR 860-027-0300, Portland General Electric Company (“PGE”) hereby requests authorization or, in the alternative, reauthorization to defer for later rate-making treatment certain expenses associated with PGE’s pension, specifically excess FAS 87 expense and carrying costs on cash contributions. PGE may seek amortization of the deferred amount in a future Commission proceeding.

I. Deferral History:

On August 22, 2012, PGE filed an application requesting approval to defer for later rate-making treatment certain expenses associated with PGE’s pension, specifically excess FAS 87 expense and carrying costs on cash contributions. On August 22, 2013, PGE filed an application again requesting approval or, in the alternative, reauthorization to defer for later rate-making treatment certain expenses associated with PGE’s pension, specifically excess FAS 87 expense and carrying costs on cash contributions. PGE has not received an approval order for either of these filings. Per Order No. 12-408 in UG 221 (Northwest Natural’s 2012 General Rate Case filing) a generic investigation docket (UM 1633) was opened by the OPUC in order to address, from a policy standpoint, the treatment of pension expenses in Oregon utility rates. This docket was opened

November 15, 2012, with PGE petitioning to intervene on December 19, 2012.

While PGE's original Application for Deferral of Excess Pension Costs and Carrying Costs on Cash Contributions was filed before the opening of UM 1633, no order has been issued due to the UM 1633 proceeding. As stated in their October 31, 2012 comments on PGE's Application for UM 1623, Staff recommended "the Commission delay its investigation of PGE's application to defer pension expense and carrying costs while the generic investigation (UM 1633) moves forward."¹ Staff also stated that further investigation into this matter is warranted but that UM 1633 is the proper forum to address the policy issues raised.²

PGE requests authorization or reauthorization of this deferral to become effective August 22, 2014 through August 21, 2015.

II. OAR 860-027-0300 Requirements

The following is required pursuant to OAR 860-027-0300(3):

a. Description of Amounts

PGE seeks authorization to record and defer pension expense (or FAS 87 expense) and carrying costs on cash contributions in excess of the test year amounts established in the UE 215 general rate case (test year 2011), the UE 262 general rate case (test year 2014) and the UE 283 general rate case (test year 2015). PGE records its pension expense based on Accounting Standards Codification (ASC) 715, "Compensation – Retirement Benefits," which prior to July 1, 2009, was known as Statement of Financial Accounting Standards No. 87 or "FAS 87." The accounting treatment requires that the cost of employee pension benefits reflect accruals that equal the present worth of pension commitments to employees. If the projected benefit obligation is in excess of the value of the plan assets, PGE is

¹ UM 1623, Staff Comments on Application, page 1, lines 17-20

² UM 1623, Staff Comments on Application, page 3, lines 9-12

required to accrue a pension expense.

A-1. Expense

In UE 215, PGE's revenue requirement included \$5.1 million for FAS 87 pension expense. In 2012, PGE's actual net FAS 87 pension expense after capitalization was \$13.2 million and in 2013 it was \$18.6 million. This is a significantly higher amount than PGE's recovery for 2012 and 2013 and this high level of expense, though subject to some fluctuation, is expected to continue for the foreseeable future. PGE's pension expense has increased for two reasons: 1) after UE 215 (test year 2011), discount rates used in calculating pension expense declined dramatically, and 2) significantly lower than expected market performance reduced PGE's pension assets far below expectations. The rapid decline in interest rates resulted in significant reductions to PGE's discount rate from the UE 215 level of 6.5% to 4.2% for 2012 and 4.8% for 2013. The return on pension assets for 2011 of 3.5% was significantly below PGE's expected rate of return of 8.5%. While annual returns bounced back in 2012 and PGE's returns have been in the top 4% of returns experienced by similar plans over the past five years ending March 31, 2014, the lower than expected returns of 2011 reduced PGE's asset base creating a ripple effect into subsequent years.

A-2. Cash Contributions

In 2006 Congress signed into law the Pension Protection Act (PPA), which introduced new funding requirements for single-employer defined benefit pension plans and established new rules for calculating plan assets and liabilities. Most notably, the PPA created funding requirements culminating in a requirement of greater than, or equal to, 100% beginning in 2012. In the meantime, private companies were to meet interim funding requirements beginning with 90% in 2007 and increasing by 2% annually. As a result of this new requirement, PGE has contributed approximately

\$56 million to its pension plan and anticipates future contributions.

Cash contributions made in excess of PGE's FAS 87 pension expense ("prepaid asset"), such as those required by the PPA, can be calculated using information contained in PGE's annual SEC 10K filing, specifically Note 10: Employee Benefits as highlighted in the excerpt from PGE's 2011 10K filing included in PGE's initial UM 1623 filing as Exhibit 2. The calculation of this prepaid asset is 'Fair value of plan assets' less 'Benefit obligation' plus 'Amounts included in AOCL' (demonstrated in Confidential Exhibit 4). This prepaid asset is expected to revert to zero over time as cash contributions eventually taper off and PGE continues to incur FAS 87 expense. PGE requests deferral of the carrying costs associated with this prepaid asset at PGE's allowed rate of return since this cash would otherwise be used for rate base investments funded via debt and equity.

PGE has taken steps to improve the plans' funded status, such as limiting cost of living increases, closing the plan to new bargaining employees in 1999, and closing the plan to new non-bargaining employees in February 2009. These steps have reduced the plan's future liability and exposure to market fluctuations.

b. Reasons for Deferral

PGE seeks this deferral pursuant to ORS 757.259(2)(e). As noted above, PGE seeks to defer the difference between actual costs and the amounts included in general rates for FAS 87 expense and carrying costs on excess cash contributions. The granting of this Application will minimize the frequency of rate changes and match appropriately the costs borne by and benefits received by customers. Approving the Application will not authorize a change in rates, but will permit the Commission to consider allowing such deferred amounts in rates in a subsequent proceeding.

c. Proposed Accounting

PGE proposes to record the deferred amount as a regulatory asset in FERC account 182.3,

Other Regulatory Assets, with a credit to FERC account 926, Employee Pensions and Benefits, for the excess FAS 87 pension expense and a credit to 407.4, Regulatory Credits, for the prepaid asset carrying costs. In the absence of a deferred accounting order from the Commission, PGE would record pension costs to FERC account 926, Employee Pensions and Benefits.

d. Estimate of Amounts

PGE estimates the amounts subject to deferral, for inclusion in the balancing accounts, would total approximately \$14.8 million for calendar year 2012, \$27.3 million for calendar year 2013, and \$8.3 million for calendar year 2014, as shown in Confidential Exhibit 4.

e. Notice

A copy of the notice of application for authorization or reauthorization of deferred accounting treatment and a list of persons served with the Notice are attached to the Application as Attachment A. (OAR 860-027-0300(6)).

III. OAR 860-027-0300 Requirement 4, Reauthorization:

a. Description of deferred account entries

Please see sections II(a) and II(c) above.

b. The reason for continuing deferred accounting

Please see Section II (b) above.

IV. Summary of Filing Conditions³:

- a. Earnings Review: PGE believes that an earnings review is not necessary for excess FAS 87 pension expense and carrying costs on cash contributions due to the use of a balancing account.

³ Per Agreement with OPUC Staff on January 24, 2012.

- b. Prudence review: A financial review will be submitted by PGE as part of its general rate case submission. OPUC Staff may audit the account at any time.
- c. Sharing (Percents): One hundred percent (100%) of the deferred costs should be subject to utility recovery, pending prudence review.
- d. Rate Spread/ Rate Design: PGE expects to propose an equal percent of revenues.

V. PGE Contacts

The authorized addresses to receive notices and communications in respect to this Application are:

Jay Tinker
Rates & Regulatory Affairs
Portland General Electric,
1 WTC0702
121 SW Salmon Street
Portland, Oregon 97204
Phone: 503.464.7587
E-mail: pge.opuc.filings@pgn.com

Douglas C. Tingey
Associate General Counsel
Portland General Electric,
1 WTC1301
121 SW Salmon Street
Portland, Oregon 97204
Phone: 503.464.8926
E-mail: Doug.Tingey@pgn.com

In addition to the name and addresses above, the following are to receive notices and communications via the e-mail service list:


Christopher A. Liddle, Regulatory Affairs
christopher.liddle@pgn.com

VII. Conclusion

For the reasons stated above, PGE requests permission to continue to defer for later rate-making treatment certain expenses associated with PGE's pension, specifically excess FAS 87 expense and carrying costs on cash contributions effective August 22, 2014 until August 21, 2015.

DATED this 22nd day of August, 2014.

Respectfully Submitted,



Patrick G. Hager
Manager, Regulatory Affairs
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Fax: 503.464.7651
E-Mail: patrick.hager@pgn.com

UM 1623

Exhibit 4

Provided in electronic format (CD) only

| | Gross | | |
|---|--------------|--------------|--------------|
| Cost of capital | 11.24% | | 10.88% |
| (millions) | 2012 | 2013 | 2014 |
| Expense | 20.6 | 31.1 | 29.8 |
| Expense (net) | 13.6 | 18.6 | 19.5 |
| Contributions | | | |
| Defined Benefit Pension Plan Assets | 486.8 | 537.5 | 580.2 |
| Pension Benefit Obligation | (640.8) | (728.6) | (715.8) |
| Amounts included in AOCL | <u>282.2</u> | <u>298.7</u> | <u>212.2</u> |
| Prepaid asset | 128.2 | 107.6 | 76.6 |
| Prepaid asset carrying charge* | <u>5.2</u> | <u>12.1</u> | <u>8.3</u> |
| Regulatory recovery of FAS 87 | 5.1 | 5.1 | 19.5 |
| Reg recovery of prepaid asset carrying charge | - | - | - |
| Total revenue requirement | 5.1 | 5.1 | 19.5 |
| FAS 87 | 9.6 | 15.2 | 0.0 |
| | 1.1 | 1.7 | 0.0 |
| Return on Prepaid | 5.2 | 12.1 | 8.3 |
| Cost of Capital | 0.6 | 1.4 | 0.9 |
| Total | 14.8 | 27.3 | 8.3 |

*Carrying charge pro-rated for 2012 based on deferral application filing date of August 22, 2012.

UM 1623

Attachment A

**Notice of Application for Authorization or Reauthorization of Deferral
of Excess Pension Costs and Carrying Costs on Cash Contributions**

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON
UM 1623**

In the Matter of the Application of
Portland General Electric Company for an
Order Approving the Deferral of Excess
Pension Costs and Carrying Costs on Cash
Contributions

Notice of Application for Authorization
or Reauthorization of Deferral of Excess
Pension Costs and Carrying Costs on
Cash Contributions


On August 22, 2014, Portland General Electric Company (PGE) filed an Application for Authorization or Reauthorization of Deferral of certain expenses associated with PGE's pension, specifically excess FAS 87 expense and carrying costs on cash contributions with the Oregon Public Utility Commission (the "Commission").

Approval for deferred accounting treatment will not authorize a change in PGE's rates, but will permit the Commission to consider allowing such deferred amounts in rates in a subsequent proceeding.

Persons who wish to obtain a copy of PGE's application will be able to access it on the OPUC website.

- Any person who wishes to submit written comments to the Commission on PGE's application must do so no later than September 22, 2014.

Dated this 22nd day of August, 2014.



Patrick G. Hager
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121 SW Salmon Street, 1WTC0702
Portland, OR 97204
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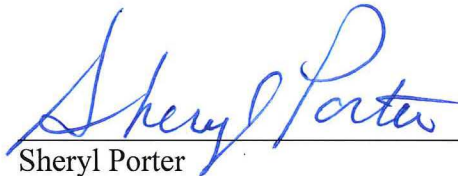
| | | | |
|---|--------------|--------------|--------------|
| | Gross | | |
| Cost of capital | 11.24% | | 10.88% |
| (millions) | 2012 | 2013 | 2014 |
| Expense | 20.6 | 31.1 | 29.8 |
| Expense (net) | 13.6 | 18.6 | 19.5 |
| Contributions | | | |
| Defined Benefit Pension Plan Assets | 486.8 | 537.5 | 580.2 |
| Pension Benefit Obligation | (640.8) | (728.6) | (715.8) |
| Amounts included in AOCL | <u>282.2</u> | <u>298.7</u> | <u>212.2</u> |
| Prepaid asset | 128.2 | 107.6 | 76.6 |
| Prepaid asset carrying charge* | <u>5.2</u> | <u>12.1</u> | <u>8.3</u> |
| Regulatory recovery of FAS 87 | 5.1 | 5.1 | 19.5 |
| Reg recovery of prepaid asset carrying charge | - | - | - |
| Total revenue requirement | 5.1 | 5.1 | 19.5 |
| FAS 87 | 9.6 | 15.2 | 0.0 |
| | 1.1 | 1.7 | 0.0 |
| Return on Prepaid | 5.2 | 12.1 | 8.3 |
| Cost of Capital | 0.6 | 1.4 | 0.9 |
| Total | 14.8 | 27.3 | 8.3 |

*Carrying charge pro-rated for 2012 based on deferral application filing date of August 22, 2012.

CERTIFICATE OF SERVICE

I hereby certify that I have this day caused **PORTLAND GENERAL ELECTRIC COMPANY'S NOTICE OF APPLICATION**, by electronic mail to those parties whose email addresses appear on the attached service list for OPUC Docket Nos. UE 283 and UM 1623.

DATED at Portland, Oregon, this 22nd day of August 2014.



Sheryl Porter
Rates Assistant, Regulatory Affairs
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OPUC DOCKET # UE 283

| | |
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OPUC DOCKET # UM 1623**

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