BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1623

In the Matter of	)
	)
PORTLAND GENERAL ELECTRIC COMPANY	)
	)
Application for Deferral Accounting of Excess Pension Costs and Carrying Costs on Cash Contributions	)
	)

OPENING TESTIMONY OF THE

CITIZENS' UTILITY BOARD OF OREGON

January 22, 2016

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My name is Dr. Jaime McGovern, and my qualifications are listed in CUB Exhibit 101.

I. Introduction

In 2012, the Company filed for a deferral to track the amount equal to the net of [pension expense designated in rates] and [actual FAS87 or pension expense]. It renewed this deferral for two subsequent years. In this case, Portland General Electric (PGE or the Company) seeks recovery of the amount accrued between August 22, 2012 and December 31, 2013. In the supplemental testimony, filed in 2015, the Company concludes:

1) PGE prudently incurred the requested pension expenses as a direct result of providing safe, affordable, and reliable electric service to our customers.

2) PGE could not reasonably predict or quantify the economic and other conditions that led to PGE's actual pension expense costs for 2012 and 2013 that greatly exceed the amounts set in rates, prior to their occurrence.

3) The level of financial impact to PGE, as a result of actions outside of its control, is of a significant nature.[1]CUB does not take issue with statement (1), but will discuss the reasons that it disagrees with statements (2) and (3) in the context of this deferral.

UM 1623 includes a total of three applications for deferrals related to PGE's pension fund costs:[2]

Table 1

Application	Filing Date	Renewal Period
Original Filing	August 22, 2012	8-22-2012 / 8-21-2013
First Reauthorization	August 22, 2013	8-22-2013 / 8-21-2014
Second Reauthorization	August 22, 2014	8-22-2014 / 8-21-2015

In 2012, PGE filed its Application for Deferral Accounting of Excess Pension Costs and Carrying Costs on Cash Contributions (Original Filing) to track costs related to its pension fund in two balancing accounts.[3] In its Original Filing the Company requested a balancing account for two amounts: (1) the return on the prepaid pension asset and (2) the difference between pension expense delineated in rates and actual realized pension expense ("Net Realized Pension Expense" or "NRPE").[4] On August 22, 2013, the Company filed its First Reauthorization, in which it again sought deferral of

[1] UM 1623/PGE/100/Batzler-Hager/2.
[2] UM 1623/PGE/100/Batzler-Hager/4.
[3] UM 1623 - Application for Deferral Accounting of Excess Pension Costs and Carrying Costs on Cash Contributions, filed August 22, 2012.
[4]I say amount 'delineated in rates' because historically, many settlements with the Company have included black box settlements, and even when not, revenue requirement is set overall, and prudent management and funding of pension funds is not contingent on ratemaking treatment.

costs related to the return on the prepaid pension asset and its NRPE.[5] Finally, on August 22, 2014, the Company filed its Second Reauthorization, in which it again sought deferral of costs related to both the return on its prepaid pension asset and its NPRE.[6] On the advice of Commission Staff, no ruling was made on the Company's Original Filing and subsequent requests due to the pending generic pension investigation (Docket UM 1633).[7]

In UM 1633, the Commission's final order made one of the Company's two deferral requests obsolete—its request to defer carrying costs on its cash contributions.[8] Following the resolution of UM 1633, the Company updated its request in this case to remove the request for a return on the prepaid pension asset. However, PGE would still like the return **of** the difference between FAS 87 expense incurred and FAS 87 expense requested in rates, but is only seeking recovery of the costs that would be deferred pursuant to its Original Filing and the 2013 part (a little more than four months) of its First Reauthorization.[9] The Company has withdrawn its request for recovery of the 2014 portion of the First Reauthorization and the entire Second Reauthorization and has withdrawn its request for a balancing account.[10]

CUB believes that this request is egregious and unfounded. We detail the arguments against allowing the Company to collect this amount, as well as the

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[5] UM 1623 – Application for Reauthorization of Deferral Accounting of Excess Pension Costs and Carrying Costs on Cash Contributions, filed August 22, 2013.

[6] UM 1623 – Application for Reauthorization of Deferral Accounting of Excess Pension Costs and Carrying Costs on Cash Contributions, filed August 22, 2014.

[7] UM 1623 – PGE/100/Batzler – Hager/4.

[8] *See In re Investigation into Treatment of Pension Costs in Utility Rates*, OPUC Docket No. UM 1633, Order No. 15-226 at 8-10 (Aug. 3, 2015).

[9] UM 1623/PGE/100/Batzler – Hager/5 ("PGE requests to narrow the deferral period to only two years: 2012 (pro-rated based on the filing date of the original application) and the full calendar year 2013.

[10] UM 1623/PGE/100/Batzler - Hager/5-6. Note: PGE is recommending an earnings test for the deferral amounts set to its authorized return on equity (ROE) for the years 2012 and 2013—10%. *Ibid.* at 6.

Company's failure to meet its burden of proof in this case. We summarize the sections here:

I. Introduction

II. Rates have been just and reasonable

III. Opportunistic selection of years

IV. The deferral amount is not substantial or material

V. This application does not meet the bar set for deferrals

VI. Fluctuating expense - consistency in rates

VII. The discrepancy was not unforeseen

VIII. Deferrals are inherently one-sided

IX. Interest rates and stock markets fluctuate and are correlated

X. Conclusion and recommendation

II. Rates have been just and reasonable

For the period of the deferral, the rates were set by the settlement, and final order in UE 215. In that case, revenue requirement was set for the Company overall, and rates were agreed to as part of stipulation as being fair and reasonable for a 2011 test year.[11] During the deferral period now requested in this docket (August 22, 2012 through December 31, 2013), the revenue requirement was set on an authorized ROE of 10% in UE 215.[12] In this case, the Company's Direct Testimony removes its request for recovery of the amount for a portion of the First Reauthorization and for the entire Second Reauthorization, and for the return on the prepaid pension asset (in compliance

[11] *See In re Portland General Electric Company*, OPUC Docket No. UE 215, Order No. 10-478 (Dec. 17, 2010).
[12] Order 10-478 at 9.

with UM 1633).[13] This means that the only time period that is being considered was before PGE's rates were recently reset, raising the question of whether this deferral is necessary to ensure that rates were just and reasonable for the part of 2012 and 2013 at issue in this case.

The Company claims, regarding realized pension expense, that the "level of financial impact to PGE, as a result of actions outside of its control, is of a significant nature."[14] CUB disagrees with this statement. Authorized ROE for the Company is not tantamount to guaranteed ROE. In 2012, the Company earned an actual ROE of 9.48%, while its authorized ROE was 10%.[15] CUB notes that this is well within the reasonable range identified by Staff in the rate case that preceded the deferral. In Staff's Opening Testimony in UE 215 (2011 test year), Staff recommended a reasonable range for ROE of between 8.7% to 9.6%.[16] In the next rate case after the deferral (2014 test year), cost of capital was settled before Staff identified a reasonable range. But that stipulation reduced the ROE by 25 basis points to 9.75% which is within 27 basis points of the Company's 2012 earnings. While there was not a cost of capital analysis for 2012, CUB finds that because the 2012 ROE of 9.48% was reasonable in 2011 and was reasonable in 2014, it should be considered within the reasonable range for 2012.

In 2013, the Company recorded lower earnings. However, the increased pension expense that year was not the cause. The Company details the real causes to its shareholders:

[13] UM 1623/PGE/100/Batzler-Hager/5. Note: the Company also removes its request for a balancing account for FAS 87 expenses above the amounts authorized in rates.
[14] UM 1623/PGE/100/Batzler-Hager/4.
[15] UM 1623/PGE/100/Batzler-Hager/6.
[16] UE 215/Staff/900/Storm/5.

> **Net income attributable to Portland General Electric Company** for the year ended December 31, 2013 was $105 million, or $1.35 per diluted share, compared to $141 million, or $1.87 per diluted share, for the year ended December 31, 2012. The $36 million, or 26%, decrease in net income was primarily due to the charge to expense in 2013 of $52 million of previously capitalized costs related to Cascade Crossing, $17 million of incremental replacement power costs related to three unplanned plant outages, and an industrial customer refund of $9 million related to cumulative over-billings over a period of several years. These three items are the primary drivers for the reduction in the Company's income tax expense for 2013, which had a favorable impact to net income when compared to 2012.[17]

For the Company to single out the pension expense issue as "significant" for the period of time it now seeks to defer in this docket is disingenuous. The monetary value of this issue pales in comparison to the other determinants of the Company's actual ROE during the deferral period currently at issue in this docket.

PGE had a reasonable opportunity to achieve its authorized ROE during the deferral period. While its earnings took a dip in 2013, this was unrelated to the deferred costs at issue in this docket. The difference between the actual pension expense and the pension expense in rates did not derail PGE's ability to earn a healthy return.

III. Opportunistic selection of years

The Company is selectively choosing a very short, specific time period out of the twenty-plus years that FAS 87 has been used for ratemaking and pension expense recovery. This deferral suffers from the same cherry-picking issue from which the utilities' requests to add the prepaid pension asset to rate base suffered. In this case, the Company has been forecasting pension expense, imposing it into rates through general rate cases, and then recording actual pension expense, as determined by its actuary, since

[17] PGE 2013 10K, accessed at http://investors.portlandgeneral.com/secfiling.cfm?filingID=784977-14-4&CIK=784977 at pg 48.

1991.[18] For not a single one of those years did forecasted pension expense equal actual pension expense.[19] Neither did actual pension expense equal pension expense requested in rates for any of those years.[20] The nature of the mechanism, forecasting FAS 87 expense into rates for a future test year, and then implementing them in real time is necessarily asynchronous. However, the Company, during all of these years, was privy to forecasts and actuals that third parties are not (without a general rate case).

As in UM 1633, it is a relevant fact that, in Oregon, FAS 87 as a basis for pension expense recovery, at the request of the Company, has been the method of choice for almost 25 years. Given this fact, examining more than just a couple of years out of 25 years of consistent treatment is necessary to see the issue comprehensively.

Between 1991 and 1996, the amount of pension expense used to set rates is not even available, even though FAS 87 was the regulatory method at that point.[21] The Company did not file for a deferral, when, from 1997-2004, the Company collected, in rates, $84 million in excess of actual pension expense.[22] That is, the Company recorded actual pension expense, year after year, millions below that which it was collected from ratepayers. As recently as 2008, PGE over-collected pension expense by 3.5 million dollars.[23]

PGE's shareholders benefited from this, and customers, without a deferral, did not have a mechanism to rectify this. This should demonstrate that the years which are chosen matter when framing the substance and the scope of the problem.

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[18] *See In re Portland General Electric*, OPUC Docket No. UE 79.
[19] UM 1623 – CUB Exhibit 102.
[20] UM 1623 – CUB Exhibit 102.
[21] UM 1623 – CUB Exhibit 102.
[22] UM 1623 – CUB Exhibit 102.
[23] UM 1623 – CUB Exhibit 102.

CUB believes that this asymmetry creates an imbalance in the ratemaking. If the Company has the opportunity for a deferral in the years that actual pension expense is greater than that which is stated in rates, but other parties do not have the necessary information to file a deferral, when actual expense may be lower, ratepayers are at a disadvantage. To state that other parties have the opportunity to file a deferral would also not be sufficient, because the Company has access to the actuarial recommendations and computations, along with the ability to manage the pension fund to achieve its goals.

The Company, in this case, even filed a Second Reauthorization and then withdrew it. PGE states that this is because the two consecutive years in the Second Reauthorization offset each other:

> PGE's actual 2014 net pension expense was approximately $3.5 million below the amount approved in UE 262, while PGE expects its actual 2015 net pension expense to be approximately $3.6 million above the amount approved in UE 283.[24]

This demonstrates that indeed, there is not a deepening trend for the Company to under-collect, and that the Company controls the timing and extent of these applications and does not consistently file them when they over-collect. It also is a demonstration of how, over time, under- and over-recovery balance each other out.

Moreover, CUB assumes that the Company does not plan to file another deferral, given the Company's current projections for FAS 87 expense:

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[24] UM 1623/PGE/100/Batzler -Hager/5.

Figure 1:[25]

[redacted]

Here, it is clear that the Company expects for actual pension expense to fall below zero by 2020 and continue to drop. Until another rate case is filed, PGE will continue to collect $13.8 million dollars in rates per year.[26] The pendulum swings both ways. The Company is asking the Commission to provide unique ratemaking treatment on one short side of that pendulum swing, altering its practice from 25 years of consistent ratemaking treatment. CUB believes that this strongly meets the definition of cherry-picking.

Moreover, the Company withdrew its application for a balancing account in this case, which further adds to the imbalance. A balancing account would at least address the bidirectional nature of actual pension expense against a forecasted or rate-set amount. Without the balancing account, the Company again has the upper hand on determining timing and structure of the deferral. In UM 1633, CUB stated that it was open to a

[25]Based on the fact that they have removed the Second Reauthorization from this case.
[26] UM 1623 – CUB Exhibit 104.

balancing account, since historically, utilities have also over-recovered FAS 87 charges. But PGE is not proposing a mechanism that is balanced.

IV. The deferral amount is not substantial or material

The Company states, when discussing the amount in this deferral, "[t]he level of financial impact to PGE, as a result of actions outside of its control, is of a significant nature."[27]

CUB does not agree that this amount "of a significant nature." Merely because actual pension expense was "significantly higher than the amount included in PGE's rates" does not mean that the amount is significant to PGE's bottom line. According to Order 15-356, PGE's average rate base is currently $3,986,000,000 and its net utility operating income is $299,000,000.[28]

The amount included in this deferral totals $16.5 million. PGE's annual revenue requirement is approximately $1.8 billion.[29] Put otherwise, the impact of this deferral is less than one half of one percent of the Company's annual revenue per year.

The Commission has given us guidance as to the materiality of deferred costs in previous dockets. In UM 1071, the Commission established that in the case of a scenario risk, the impact on the Company's earnings must be substantial:

> We look at two interrelated considerations for our initial determination whether to exercise our discretion. We consider both the type of event that caused the request for deferral and the magnitude of the event's effect. These considerations interact with each other such that neither one is dispositive without the other.
>
> Staff has established a distinction between the risks that can be predicted as part of the normal course of events and those that are not susceptible to

[27] UM 1623/PGE/Hager-Batzler/2.
[28] Order No 15-356, Attachment 1, page 6.
[29] http://edocs.puc.state.or.us/efdocs/HTB/ue294htb9539.pdf exhibit 201 pg 1

> prediction and quantification. Staff calls the former stochastic risks and the latter, paradigm or scenario risks. An example of a stochastic risk is variation in hydro availability over time. An example of a scenario risk is the "perfect storm" of2000-2001, a cascade of effects that included poor hydro conditions, cold weather, and extremely volatile power markets (UM 995). We find this distinction useful to characterize the type of risk we consider appropriate for deferral.
>
> We agree with Staff that risks normally included in modeling power costs (stochastic risks) are not appropriate for deferred accounting, as long as those risks are reasonably predictable and quantifiable and have no substantial financial impact on the utility. Here, hydro variability has been included and modeled to set PGE's base rates. The hydro year which PGE bases its application is, as CUB points out, a 1 in 4.5 year event. This cause is not extraordinary enough to justify deferred accounting. [30]
>
> . . .
>
> In the present application, PGE claims that it has incurred $31.6 million in excess NVPC, only some of which is attributable to hydro replacement costs. PGE asserts that this excess NVPC amounts to 172 basis points of return on equity. This is well short of the 250 basis points of return on equity within which we allowed no recovery in UM 995. Moreover, Staff estimates the hydro realted excess NVPC to be about $17.5 million, which, by extension amounts to about 95 basis points of return on equity. That figure is about 55 percent of PGE's $31.6 million. Finally, we note that PGE claims that without deferral, its return on equity will drop to 8 percent. That is far from a dire figure. We find that the impact of excess hydro costs is not significant enough in this case to warrant a deferral. [31]

CUB believes that pension expense clearly falls into the category of stochastic risk. It is a normal cost that is forecast in every rate case and actuals materialize to be both higher and lower than actuals. Neither the $13.5 million[32] deferral in 2013, nor the $3million[33] deferral in 2012 rise to the level that would be considered substantial, one that would trigger a deferral for a stochastic risk.

[30] OPUC Order No. 04-108 page 8-9.
[31] OPUC Order No. 04-106, page 9.
[32] UM 1623/100/Batzler -Hager/3.
[33] UM 1623/100/Batzler -Hager/3.

The Company has not been having trouble attracting capital, and has in fact been increasing dividends, even since the Cascade Crossing write-off.[34] This should demonstrate that stochastic, fluctuations of this nature and this size do not constitute significant. To be clear, CUB understands that $16.5 million is real money. That is not the question. It is not, however, a significant fraction of the Company's earnings, or did not cause a significant drop in its earnings.[35] While it may be more than background noise, it is within the expected variation of earnings that a utility with this level of rate base. PGE experienced, in 2012, actual ROE that is reasonable, given its authorized ROE and in 2013, experienced a lower ROE, due to factors other than pension expense.

V. This application does not meet the bar set for deferrals

The purpose of a deferral is to match costs with benefits and/or reduce rate fluctuation and volatility. According to the PUC in its investigation of deferred accounting:

> We decline to adopt additional standards to determine whether an application meets the requirements of ORS 757.259(2)(e). PGE is correct that subsection (e) sets out a two-prong test, in which the proposed deferred account must either minimize the frequency or fluctuations of rate changes or match the costs and benefits received by ratepayers. Whether either of these standards is satisfied requires an examination of the facts presented on a case-by-case basis.[36]

The Company has not demonstrated that this deferral will serve either of those purposes. With three general rate cases in three years, this is not a deferral aimed at minimizing rate changes. As to matching costs with benefits, this deferral actually has an adverse affect. As discussed at length in UM 1633, FAS 87, as a method of accounting is

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[34] http://investors.portlandgeneral.com/dividends.cfm
[35] http://investors.portlandgeneral.com/releasedetail.cfm?releaseid=896287
[36] OPUC Order No 05-1070, page 5.

an actuarial method of matching the costs incurred in particular year with the benefits accrued.[37] To use this method of expense for ratemaking is explicitly to match the costs and benefits of the pension plan in rates. This is one of the primary benefits of using accrual accounting over cash accounting in rates.

Additionally, where smoothing is concerned, because fluctuations in cash contributions and pension plan value can occur rapidly, but FAS 87 is a long term actuarial method, FAS 87 as a ratemaking structure has a smoothing effect in rates. This was also discussed at length in UM 1633, and cited as one of the arguments for keeping FAS 87 as the pension recovery method.

Allowing the Company, at its discretion, to selectively choose years and amounts of FAS 87 for deferral, by its very nature introduces lumpiness into an already smooth mechanism.

CUB does not feel that this deferral meets the bar that is required when allowing a company to track and recovery singled out costs.

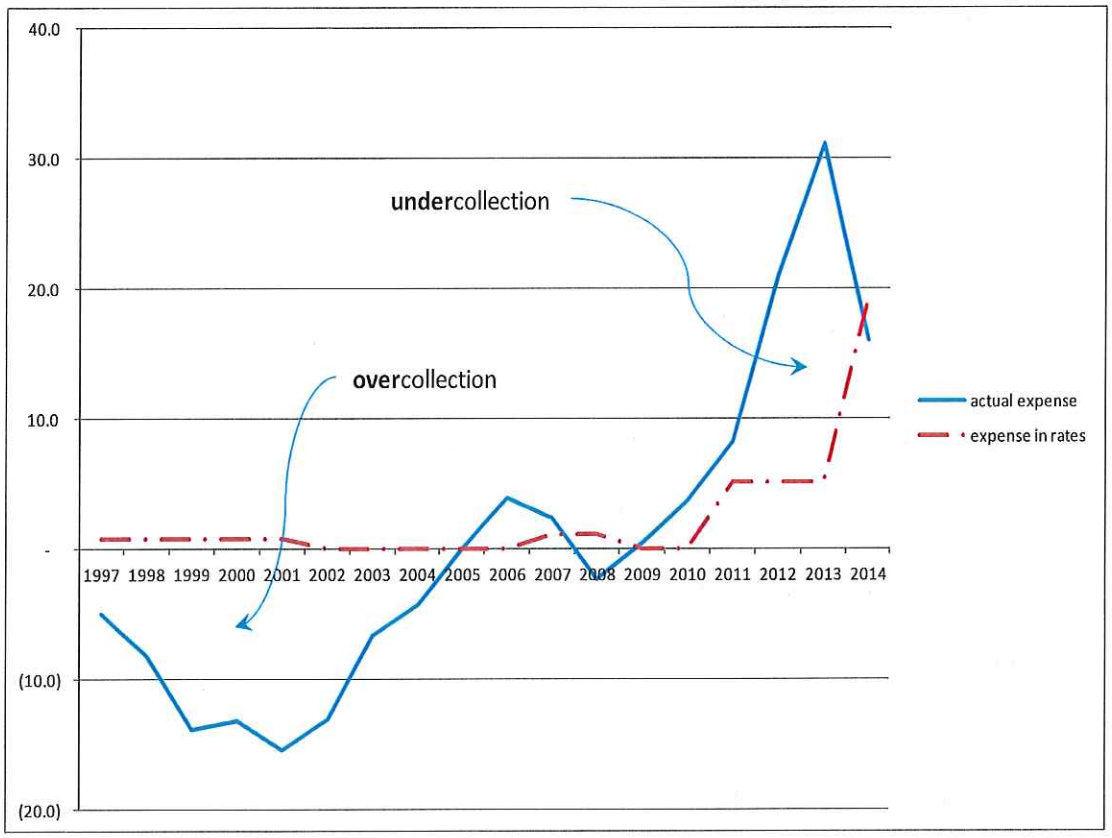
VI. Fluctuating expense -consistency in rates

The Company happened to file a deferral for these costs, and renew it three times. They also happened to begin a series of rate cases around the same time. Both of those ratemaking treatments can have the effect of adjusting rates. If we look at the entire three year deferral period, as it was intended, without the removed portion, we notice something. The Company under-recovered by $3 million.[38] Then there was the

[37] OPUC Order No 15-226, page 2; UM 1633/Joint Testimony/200/Vogl/4; UM 1633/CUB/100/Jenks-McGovern/30.
[38] UM 1623/PGE/101/Batzler-Hager/1.

under-recovery by $13.5 million.[39] Then they over recovered by $3.5 million.[40] Then they under recovered by $3.6 million[41]--the the last two ups and downs are the ones they removed. What we see here is a natural fluctuation around the actuarially forecasted (at the time of the rate case) FAS 87 expense. There is not a trend, but literally a fluctuation around the mean, so to speak:

Figure 2:



The Company may argue that even with the ability to file rate-cases, and the re-forecast of FAS 87 expense for each rate case, that the forecast is slow to catch up with the rapid movement of the market. This is more to the point. As mentioned above, FAS

[39] UM 1623/PGE/101/Batzler-Hager/1.
[40] UM 1623/PGE/100/Batzler-Hager/5.
[41] UM 1623/PGE/100/Batzler-Hager/5.

87 is intentionally gradual, as it is a long term mechanism. Therefore, if the market drops suddenly and actual FAS 87 expense increases sharply, the Company's forecast may not match that in real time. However, this works in the opposite direction as well. In times when the pension fund and the market are improving, FAS 87 forecasts remain relatively high, while actual pension expense can drop suddenly. These can be the periods of economic growth that the Company is over-collecting pension expense in rates. The FAS 87 mechanism in rates is not intended to give the Company dollar-for-dollar recovery. Like any other forecast, the actual realization is by its nature, different.

Over the past 25 years, actual pension expense has varied, above **and** below that set in rates, and neither the Company nor its customers have received the difference. This is about to change, as the pension plan is shrinking through attrition of pensioners. With the pension plan closed to new employees the size of the pension plan will continue to decrease, and the forecast above shows it being fully funded by [redacted].[42]

Current regulatory treatment, which sets pension expense in rates equal to that of the forecasted pension expense in the test year, would allow the Company to consistently over-collect in between rate cases. That is, the Company would be collecting a constant amount, as actual pension expense trends toward zero, and eventually becomes negative. This is also a concern for CUB.

VII. The discrepancy was not unforeseen

The deferral at issue in this case is for the net difference between the actual FAS 87 expense and the amount that the Company put into rates. The Company claims that:

> PGE could not reasonably predict or quantify the economic and other conditions that led to PGE's actual pension expense costs for 2012 and

[42] UM 1623 – CUB Exhibit 104.

> 2013 that greatly exceed the amounts set in rates, prior to their occurrence.[43]

The exact dollar amount of the ex-post discrepancy may not have been known ex-ante. However, this is not the entire picture. With pension fund performance improving, actual pension expense could quickly fall below that set in rates.

[43] PGE UM 1623/100/Batzler-Hager/2.

VIII. Deferrals are inherently one-sided.

As mentioned above, there is a one-sided nature to this deferral, especially given the context that the Company does not plan to continue to file deferrals, and given that it has removed its request for a balancing account. Because this risk of over or under-implementing FAS 87 expense in rates is stochastic, it therefore can, in some years, benefit customers or shareholders short term. If deferrals are only filed when companies feel that they may be at risk of under-recovering then, the scales are tipped. They are tipped even further because the knowledge required to ascertain the actual costs of a utility require access to the Company's books, which customers do not have outside of a ratecase. To balance the scales would require CUB and intervening parties to proactively file deferrals every year and then withdraw the deferral in years where the utilities end up under-forecasting. Obviously this makes no sense.

IX. Interest rates and stock markets fluctuate and are correlated

The Company describes the conditions it believes led to the discrepancy:

> 1. After UE 215 (test year 2011), the discount rates used in calculating pension expense, determined through the averaging of interest rates from a basket of long-term high quality AA-rated bonds,5 declined to historic lows.
>
> 2. Significantly lower actual, compared to expected, market performance m 2011 reduced PGE's pension assets far below expectations.[44]

The period in this deferral is a snapshot of a longer-term evolution of financial conditions that were occurring. Beginning in 2008, the economy suffered, and in response, the Federal government and the Fed took steps to stimulate the economy. One of these steps was the lowering of interest rates. The Company correctly notes that

[44] UM 1623/PGE/100/Batzler-Hager/8.

interest rates hit historic lows around 2011.[45] What the Company does not point out is that market returns are a larger determinant of plan values than interest rates. One of the goals, of lower interest was to stimulate spending. In fact, a main result of these lower interest rates was a 'flight from quality.' As investors found no growth opportunities in bonds or T-bills, they looked elsewhere to invest their money. From 2011-2014, the Dow Jones moved from 11,577 to 17,097, an increase of almost 50%.[46] This growth, as evidenced by the Company's rapid decline in its prepaid pension asset over the course of UM 1633, had the impact of improving the funding status and health of many pension plans.[47]

It is true that interest rates have an impact on pension plans, but so do market returns. Therefore, given that the stock market and bond market are substitute investment vehicles, one cannot view either in isolation. Moreover, it would be absurd to file a deferral whenever the stock market fluctuates, and correspondingly it would be absurd to file a deferral when interest rates move up or down. Movement is implicit in both of these markets, and perfect foresight is not expected.

X. Conclusion and recommendation

For all the reasons enumerated above, CUB finds this application egregious, unfounded, and opportunistic. CUB also believes that if, given the lack of materiality in this case, and the historical regulatory treatment, authorization of recovery for this deferral would constitute unfair and unbalanced ratemaking. Therefore, CUB recommends that the Commission deny the Company's requests for rate recovery.

[45] UM 1623/PGE/100/Batzler-Hager/8.
[46] https://finance.yahoo.com/q/hp?s=%5EDJI&a=00&b=29&c=2008&d=00&e=21&f=2016&g=m
[47] https://www.towerswatson.com/en-US/Press/2014/03/financial-health-of-largest-us-corporate-pension-plans-improved-sharply-in-2013

WITNESS QUALIFICATION STATEMENT

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January 20, 2016

TO: Sarah Ryan-Knox
Citizens' Utility Board of Oregon

FROM: Patrick Hager
Manager, Regulatory Affairs

PORTLAND GENERAL ELECTRIC
UM 1623
PGE Response to CUB Data Request No. 003
Dated January 13, 2016

Request:

Please provide actuals for CUB DR 5 for years 2014 and 2015, to the extent that those numbers are available. If 2015 actuals are not available, please note, and provide current forecasts.

Response:

See Attachment 003-A for updated 2014 and 2015 actuals. Please note that a number of actuals for 2015 are not yet available. The majority of these figures should become available in February.

UM 1623

Attachment 003-A

Provided in Electronic Format (CD) Only

PGE's response to CUB Data Request No. 005, Attachment 005-B
for Docket No. UM 1633 updated for 2014 and 2015

Pension Plan Worksheet, In Millions of $s

Status	YEAR	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
A	Pension Benefit Obligation	(1)	(1)	(1)	(105.5)	(134.1)	(149.9)	(151.8)	(172.7)	(180.2)	(198.9)	(189.5)	(222.3)	(222.0)	(240.0)	(284.0)	(267.0)	(266.0)	(306.0)	(353.0)	(400.0)	(450.0)	(483.0)	(492.0)	(475.0)	(467.0)	(491.0)	(550.0)	(634.0)	(728.0)	(704.8)	(777.0)	(11)
B	Prepaid pension asset*	(1)	(1)	(1)	(2.7)	1.2	3.7	2.9	0.2	(2.9)	(4.3)	(5.4)	(2.9)	(0.9)	4.0	-	14.0	39.0	55.0	68.0	73.0	78.0	88.0	84.0	82.0	84.0	85.0	111.0	129.0	108.0	76.6	49.8	(11)
C	Present value of plan assets in $**	(1)	(1)	(1)	142.3	156.7	191.0	183.4	219.0	226.4	262.4	245.2	295.5	315.0	375.0	401.0	439.0	424.0	397.0	337.0	415.0	452.0	469.0	503.0	518.0	347.0	406.0	473.0	487.0	537.0	585.6	591.0	(11)
D	Funding target in $	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	443.7	348.5	437.6	480.7	458.2	491.1	520.1	(11)
E	Unfunded liability in $/funding shortfall	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	58.4	18.7	(63.6)	(58.2)	6.3	11.0	26.5	(11)
F	Target normal cost	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	15.9	12.3	12.2	15.0	14.4	12.4	13.6	(11)
G	Minimum required contribution	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	-	-	19.9	25.5	8.2	1.4	-	(11)
H	Credit balance	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	10.9	42.1	52.7	28.1	23.3	25.9	27.0	(11)
I	Annual contribution in $s	(1)	(1)	(1)	-	6.8	8.8	0.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10.0	-	-	-	-	30.0	26	-	-	-	(11)
I1	Contribution from shareholders in $s	(1)	(1)	(1)	-	6.8	8.8	0.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	10.0	-	-	-	-	30.0	26	-	-	-	(11)
I2	Contribution from credit balance in $s	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	-	-	-	-	8.2	1.4	-	(11)
I3	Capital cost of shareholder contribution	(1)	(1)	(1)	12.7%	12.7%	12.7%	12.7%	11.9%	11.9%	11.9%	11.9%	11.2%	11.3%	11.3%	11.3%	11.3%	11.3%	11.3%	10.4%	10.4%	10.4%	10.4%	10.4%	10.1%	10.1%	10.1%	10.1%	10.0%	10.0%	10.0%	9.75%	9.68%
I4	Debt financing cost of contribution	(1)	(1)	(1)	10.1%	10.1%	10.1%	10.1%	9.1%	9.1%	9.1%	9.1%	7.7%	7.8%	7.8%	7.8%	7.8%	7.8%	7.8%	7.5%	7.5%	7.5%	7.5%	7.5%	6.5%	6.5%	6.6%	6.6%	6.1%	6.1%	6.1%	5.49%	5.44%
J	Funding status (choose one Y/N)	(1)	(1)	(1)																													
J1	Underfunded	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	N	N	Y	Y	N	N	N	N
J2	Overfunded	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	Y	Y	N	N	Y	Y	Y	Y
J3	Fully funded	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	N	N	N	N	N	N	N	N
J4	Funding target attainment percentage	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	113.20%	105.38%	85.46%	87.88%	101.35%	102.24%	105.09%	106.75%
K	Amount recovered (authorized) in rates (pre-tax)	(1)	(1)	(1)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	0.8	0.8	0.8	0.8	0.8	-	-	-	-	-	1.1	1.1	-	-	5.1	5.1	5.1	19.5	13.8
L	Amount recovered (authorized) in rates (post-tax)	(1)	(1)	(1)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
L1	FAS 87 expense	(1)	(1)	(1)	(1.3)	2.9	3.2	1.6	3.6	3.1	2.0	0.9	(2.3)	(1.1)	(5.0)	(8.2)	(13.9)	(13.2)	(15.5)	(13.1)	(6.7)	(4.4)	-	3.9	2.3	(2.4)	0.4	3.7	8.2	21.0	31.1	26.7	(11)
M	Actual interest rate	(1)	(1)	(1)	9.00%	9.00%	8.50%	8.75%	8.00%	8.00%	7.25%	8.50%	7.00%	7.50%	7.25%	6.75%	7.75%	7.75%	7.25%	6.75%	6.25%	5.75%	5.75%	5.75%	5.75%	6.50%	6.90%	5.90%	5.47%	5.00%	4.24%	4.84%	4.02%
N	Actual return on plan assets	(1)	(1)	(1)	(3)	(3)	23.59%	0.45%	24.77%	9.26%	21.58%	-2.07%	26.34%	15.09%	24.03%	10.41%	18.22%	0.99%	-1.60%	-10.93%	29.78%	11.13%	7.47%	13.71%	8.74%	-26.66%	26.90%	15.02%	3.46%	17.51%	18.39%	7.90%	(11)
Assumptions																																	
O	Assumed discount*** rate for																																
O1	Benefit obligation	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	6.10%	8.23%	6.65%	6.23%	6.98%	6.28%	6.45%	6.24%
O2	Benefit cost	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	6.10%	8.23%	6.65%	6.23%	6.98%	6.28%	6.45%	6.24%
P	Expected return on plan assets	(1)	(1)	(1)	9.00%	8.50%	8.50%	8.50%	8.50%	8.50%	8.50%	8.50%	8.50%	8.50%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	9.00%	8.50%	8.50%	8.25%	8.25%	8.25%	7.50%	7.50%
Q	Wage escalation assumed	(1)	(1)	(1)	7.00%	7.00%	6.50%	6.25%	6.25%	6.00%	5.25%	6.50%	5.00%	5.50%	5.25%	5.25%	4.0 - 9.5%	4.0 - 9.5%	4.0 - 9.5%	4.0 - 9.5%	4.75%	4.48%	4.43%	4.44%	4.42%	4.42%	3.79%	3.80%	3.71%	3.65%	3.65%	3.65%	3.65%
R	Years of amortization assumed	(1)	(1)	(1)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	11.01	10.92	10.76	10.75	10.80	10.84	10.62	10.20%	9.92%
S	Funding target percentage per year	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	113.20%	105.38%	85.46%	87.88%	101.35%	102.24%	105.09%	106.75%
T	"at risk" under PPA (choose one Y/N)	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	N	N	N	N	N	N	N	N
U	Tax benefit, in dollars of annual contribution	(1)	(1)	(1)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	(10)
V	Cash flow benefit of cash contribution	(1)	(1)	(1)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)
W	Value of prepaid pension asset	(1)	(1)	(1)	(2.7)	1.2	3.7	2.9	0.2	(2.9)	(4.3)	(5.4)	(2.9)	(0.9)	4.0	-	14.0	39.0	55.0	68.0	73.0	78.0	88.0	84.0	82.0	84.0	85.0	111.0	129.0	108.0	76.6	49.8	(11)
X	Accumulated Other Comprehensive Income/Expense	(1)	(1)	(1)	(39.5)	(21.4)	(37.4)	(28.7)	(46.1)	(49.1)	(67.8)	(61.1)	(76.1)	(93.9)	(131.0)	(117.0)	(158.0)	(119.0)	(36.0)	84.0	58.0	76.0	102.0	73.0	39.0	204.0	170.0	188.0	276	299	185.8	235.8	(11)

*actual amounts listed for prepaid pension asset are end of year totals, while forecasted amounts provided to PGE are beginning of year totals
**as determined by the actuarial calculation of future retirement obligations - please specify any assumptions
***as determined by the PPA post 2006. Please specify method determination in earlier years.
NOTE: For all historical values, use information that was available in the year of filing. For future years, use predictions consistent with the company's filings

(1) - FAS 87 expense and related pension measurement assumptions were adopted for financial statements beginning in 1987
(2) - PPA measurements were effective beginning in 2008. Funding targets are n/a from 1987 through 2007
(3) - No data available
(4) - Amortization is assumed to match the average remaining service of plan participants. Details are not available for average remaining service prior to 2006, but average remaining service life continues to trend down since plan closure in 2009, and will eventually reach zero.
(5) - Forecasts supporting these assumptions include FAS 87 inputs only, unless otherwise noted
(6) - PPA funding for all forecast years is assumed to equal the minimum required funding contribution. No credit balance is created or carried forward for forecast years.
(7) - Not applicable
(8) - Please refer to our 10K filings
(9) - Records for amounts used to set rates not available
(10) - See response.
(11) - Information not yet available

	Order 95-322	Cap Structi	Cost %	Shareholder's Cost
1995	LT Debt	49.14	7.71	
	Preferred Stock	5.42	8.27	11.24513
	Common Equty	45.44	11.6	
		100		50.86
1996	LT Debt	48.86	7.82	
	Preferred Stock	4.67	8.27	11.29591
	Common Equty	46.47	11.6	
		100		51.14

Order 91-186	Cap Structi	Cost %	Shareholder's Cost
LT Debt	48.67	9.1	
Preferred Stock	8.37	8.63	11.86895
Common Equty	42.96	12.5	
	100		51.33

01-777	Cap Structi	Cost %	Shareholder's Cost
Long-term debt	46.32	7.508	
Preferred Stock	1.53	8.432	10.44
Common Equity	52.16	10.5	
	100.01		53.69

order 87-1017	Cap Structi	Cost %	Shareholder's Cost
LT Debt	46.15	10.08	
Preferred Stock	11.35	12.74	12.74789
Common Equty	42.5	12.75	
	100		53.85

January 12, 2016

TO: Tyler Pepple
Davison Van Cleve, PC (ICNU)

FROM: Patrick Hager
Manager, Regulatory Affairs

PORTLAND GENERAL ELECTRIC
UM 1623
PGE Response to ICNU Data Request No. 002
Dated January 7, 2016

Request:

For each year from 2003 to the present, please identify the amount of FAS 87 pension expense included in the Company's rates and the Company's actual net FAS 87 pension expense after capitalization.

Response:

The table below provides the amount of FAS 87 expense approved in PGE's rates for 2003 through 2015 along with PGE's actual FAS 87 expense after capitalization for 2003 through 2014. See Attachment 002-A for PGE's 2015 actual FAS 87 expense after capitalization for 2015.

Attachment 002-A is confidential and subject to Protective Order No. 12-327 until PGE files its SEC Form 10-K for the fiscal year ended December 31, 2015. The expected filing date is February 12, 2016.

Year	Actual expense after capitalization (in millions)	Amount authorized in rates (in millions)
2003	(6.7)	-
2004	(4.4)	-
2005	-	-
2006	3.9	-
2007	2.3	1.1
2008	(2.4)	1.1
2009	0.4	-
2010	3.7	-
2011	5.4	5.1

2012	13.2	5.1
2013	18.6	5.1
2014	16.0	19.5
2015	See Attachment 002-A	13.8

UM 1623

Attachment 002-A

Confidential and Subject to Protective Order No. 12-327

Provided in Electronic Format (CD) only

2015 Actual FAS 87 Expense after Capitalization

CUB Exhibit 103, Attachment A is confidential and will be provided to those parties who have signed the protective order in this docket.

October 22, 2012

TO: Kay Barnes
Oregon Public Utility Commission

FROM: Patrick Hager
Manager, Regulatory Affairs

PORTLAND GENERAL ELECTRIC
UM 1623
PGE Response to OPUC Data Request No. 008
Dated October 8, 2012

Request:

Please provide a latest copy of the Pension Outlook forecast developed by the Company's pension actuary AON Hewitt that supports Confidential Exhibit 1.

Response:

The Pension Outlook for PGE, developed by PGE's actuary AON Hewitt and used as the basis for PGE's initial filing in this docket, is included as Attachment 008-A. Attachment 008-A is confidential and subject to Protective Order No. 12-327.

UM 1623

Attachment 008-A

Confidential and Subject to Protective Order No. 12-327

Provided in Electronic Format (CD) only

AON Hewitt: PGE Pension Outlook

CUB Exhibit 104, Attachment A is confidential and will be provided to those parties who have signed the protective order in this docket.