

This is an electronic copy. Format and font may vary from the official version. Attachments may not appear.

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

	UI 210	
In the Matter of)	
)	
PORTLAND GENERAL ELECTRIC)	
COMPANY)	ORDER
)	
Application Requesting Commission Approval)	
for the Entry on Portland General Electric's)	
Books of an Intercompany Receivable from)	
Portland General Holdings (UI 209).)	

**DISPOSITION: APPLICATION APPROVED WITH CONDITIONS
AND REPORTING REQUIREMENTS**

On December 5, 2002, Portland General Electric Company (PGE) filed an application with the Public Utility Commission of Oregon (Commission) pursuant to Commission Order No. 02-824 and ORS 757.495(5), OAR 860-027-0030, and OAR 860-027-0040. Order No. 02-824 required Portland General Electric Company (PGE) to file for approval concerning the 1999 transfer of Corporate Owned Life Insurance (COLI) policies to Portland General Holdings (PGH). PGE is complying with the Commission order, but maintains that an application for approval is not required under Oregon law and does not waive its right to challenge whether statutory authority exists to require PGE to file this application. PGE and PGH are both wholly owned subsidiaries of Enron Corporation (Enron) and therefore PGE and PGH are affiliated interests under ORS 757.015.

Based on a review of the application and the Commission's records, the Commission finds that the application satisfies applicable statutes and administrative rules. At its Public Meeting on February 4, 2003, the Commission adopted Staff's recommendation and approved the transfer with conditions. Staff's recommendation report is attached as Appendix A and incorporated by reference.

OPINION

Jurisdiction

ORS 757.005 defines a "public utility" as anyone providing heat, light, water or power service to the public in Oregon. The Company is a public utility subject to the Commission's jurisdiction.

Affiliation

An affiliated interest relationship exists under ORS 757.015.

Applicable Law

ORS 757.495 requires public utilities to seek approval of contracts with affiliated interests within 90 days after execution of the contract.

ORS 757.495(3) requires the Commission to approve the contract if the Commission finds that the contract is fair and reasonable and not contrary to the public interest. However, the Commission need not determine the reasonableness of all the financial aspects of the contract for ratemaking purposes. The Commission may reserve that issue for a subsequent proceeding.

CONCLUSIONS

1. The Company is a public utility subject to the jurisdiction of the Commission.
2. An affiliated interest relationship exists.
3. The agreement is fair, reasonable, and not contrary to the public interest.
4. The application should be granted, with certain conditions and reporting requirements.

ORDER

IT IS ORDERED that:

- 1) The application of Portland General Electric to enter into an affiliated transaction with Portland General Holdings is approved.
- 2) Portland General Electric shall provide the Commission access to all books of account, as well as documents, data, and records of Portland General Electric and Portland General Holdings' affiliated interests that pertain to this transaction.
- 3) The Commission reserves the right to review, for reasonableness, all financial aspects of this transaction in any rate proceeding of alternative form of regulation.
- 4) Portland General Electric shall notify the Commission in advance of any substantive changes to the intercompany receivable. Any such change shall be submitted in an application for a supplemental order (or other appropriate format) in this docket.

ORDER NO. 03-093

- 5) Portland General Electric shall remove the remaining value of the receivable not transferred to Enron (approximately \$150,000) from its books, as a non-operating loss, within six months of the Commission order.
- 6) Payments, except those for employee benefit plans, due to any non-sub subsidiary affiliate (e.g. Portland General Holdings) by Portland General Electric shall be netted (offset) against payments due to Portland General Electric from the non-sub subsidiary affiliate, should the non-sub subsidiary affiliate fail to make payments to Portland General Electric within three months after the prescribed payment due date.

Made, entered, and effective _____.

BY THE COMMISSION:

Becky L. Beier
Commission Secretary

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order to a court pursuant to applicable law.

ITEM NO. 1

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: February 4, 2003**

REGULAR X **CONSENT** **EFFECTIVE DATE** _____

DATE: January 16, 2003

TO: John Savage through Marc Hellman and Rebecca Hathhorn

FROM: Michael Dougherty

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UI 210) Application for Approval for the Entry on Portland General Electric's Books of an Intercompany Receivable from Portland General Holdings.

STAFF RECOMMENDATION:

The Commission should approve Portland General Electric's (PGE) application to enter on PGE's books an intercompany receivable that occurred in 1999 with Portland General Holdings (PGH), an affiliated interest, and include the following conditions:

1. PGE shall provide the Commission access to all books of account, as well as documents, data, and records of PGE's and PGH's affiliated interests that pertain to this transaction.
2. The Commission reserves the right to review, for reasonableness, all financial aspects of this transaction in any rate proceeding or alternative form of regulation.
3. PGE shall notify the Commission in advance of any substantive changes to the intercompany receivable. Any such change shall be submitted in an application for a supplemental order (or other appropriate format) in this docket.
4. PGE shall remove the remaining value of the receivable not transferred to Enron (approximately \$150,000) from its books, as a non-operating loss, within six months of the Commission order.
5. Payments, except those for employee benefit plans, due to any non-subsidiary affiliate (e.g. PGH) by PGE shall be netted (offset) against payments due to PGE from the non-subsidiary affiliate, should the non-subsidiary affiliate fail to make payments to PGE within three months after the prescribed payment due date.

Portland General Electric
January 16, 2003
Page 2

DISCUSSION:

Background

Commission Order No. 02-824 required PGE to file for approval concerning the 1999 transfer of Corporate-Owned Life Insurance (COLI) policies to PGH by December 5, 2002.

PGE filed this application on December 5, 2002, pursuant to ORS 757.495(5), OAR 860-027-0030 and OAR 860-027-0040. Although PGE is complying with the Commission order, PGE maintains that an application for approval is not required under Oregon law and does not waive its right to challenge whether statutory authority exists to require PGE to file this application. PGE and PGH are both wholly owned subsidiaries of Enron Corporation (Enron) and therefore PGE and PGH are affiliated interests under ORS 757.015.

The COLI Asset

PGE contracted to purchase, at a cost of \$2.38 million, approximately 1,200 COLI policies in 1986 as an investment option to fund an expected shortfall in employee benefit reserves. At the time, PGE considered the COLI policies to be a positive investment alternative due to the following three reasons:

1. The expected timing of the COLI benefits generally matched the expected timing of the future post-retirement liability.
2. The COLI policies yielded tax-free income as the value of the investment increased and the insurance benefit is distributed tax-free.
3. Companies could deduct interest payments on loans taken out against the value of the COLI policies until the tax law was revised in 1996.

PGE paid premiums on the COLI policies until 1995.

In 1999, due to reasons that ended the investment and tax benefits including the tax-free income, tax-free distribution and interest payment deductions of the COLI policies, PGE decided to transfer the COLI assets. PGE transferred one-third of the cash surrender value (\$10.3 million) of the COLI asset into PGE's Management Deferred Compensation Plan (MDCP) Trust and two-thirds of the value (\$20.6 million) into PGH's MDCP Trust.

Portland General Electric
January 16, 2003
Page 3

PGE states that the transfer of the COLI assets to the MDCP's was performed because both trusts were under funded and that the expected timing of benefits from the COLI policies matched the expected future expenses for the MDCP's.

PGE accounted for the partial transfer to PGH by creating a \$20.6 million receivable balance from PGH. PGH created a corresponding \$20.6 million payable to PGE. The transfer was not a cash transaction and interest on the amount owed to PGE began accumulating immediately subsequent to the transfer. There was no sale agreement or contract drafted for the transfer. PGE states that when the receivable was established in PGE's books, PGE believed that the receivable would be paid during the ordinary course of business (a one-year business cycle).

In July 2002, PGE management made the decision to clear the account from its books by declaring a special non-cash dividend to Enron. This PGE Board-approved dividend transferred the predominant balance in the COLI account (\$27 million, including accrued interest) directly to Enron. A relatively small balance of the account receivable (approximately \$150,000) still shows on PGE's books¹.

Issues

Staff investigated the following issues:

1. Regulatory Accounting Concerning the COLI Policies
2. Public Interest Compliance
3. Records Availability, Audit Provisions and Reporting Requirements

Regulatory Accounting Concerning the COLI Policies

Staff reviewed PGE's financial records concerning the original purchase of the COLI polices, the transfer of the COLI polices to PGH, the special non-cash dividend to Enron and Balance Sheets / Income Statements for both PGE and PGH prior to (June 30, 1999) and after (December 31, 1999) the COLI transfer.

PGE originally booked the purchase of the COLI policies into a PGE ledger account that corresponds to FERC Account 186 (Miscellaneous Deferred Debits). Approximately a month after the COLI purchase, PGE reclassified the \$2.38 million into a COLI asset ledger account that corresponds to FERC Account 128 (Other special funds).

¹ The balance represents the difference between the dividend amount permitted by the terms of PGE's financing and the dollar amount of the receivable at the time of the transfer.

Portland General Electric
January 16, 2003
Page 4

Premiums on the COLI policies were paid annually by PGE until 1995, which along with the investment growth of the policies, increased the cash surrender value of the COLI policies to \$30.9 million in 1999.

In July 1999, PGE transferred two-thirds of the cash surrender value of the COLI asset to PGH. PGE debited the \$20.6 million cash surrender value into FERC Account 146 (Accounts receivable from affiliated companies) and entered a corresponding credit of \$20.6 million in FERC Account 128. Upon entry in PGE's books, the PGE receivable began accruing interest at the rate of 9.5%².

Since there was no sale agreement or contract with stated terms and conditions and due to the significant amount of the transfer (\$20.6 million), Staff believes that the COLI transfer should have been recorded as a Noncurrent asset in PGE's books.

PGE's accounting treatment for the special non-cash dividend to Enron resulted in the crediting of \$27 million to accounts receivable with a corresponding debit to dividends declared which resulted in a \$27 million reduction in PGE's retained earnings.

With the exception of not recording the COLI receivable as a Noncurrent asset, Staff did not find anything else unusual about PGE's accounting treatment of the COLI purchase, COLI transfer and non-cash dividend.

Public Interest Compliance

Staff reviewed records submitted by PGE to determine if the COLI purchase, transfer and creation of the PGE receivable affected customer rates. Staff examined PGE's work papers from the UE 47/48 general rate case that used a 1987 test year and from the UE 79 general rate case that used a 1991 test year. The work papers indicate that the COLI asset (premiums and cash surrender value) was not included as part of the rate base. Additionally, the work papers also indicate that the COLI expenses (benefit payments recorded in a non-regulatory ledger account) were not included in employee pension and benefits expenses.

In addition, PGE's equity ratio and credit ratings were not affected by the transaction since the transaction was an exchange of one asset (the COLI policies) for another asset (the PGE receivable).

² This rate is used by Enron Corp. subsidiaries as the intercompany interest rate for outstanding balances.

Portland General Electric
January 16, 2003
Page 5

Staff reviewed PGH's Balance Sheet and Income Statement for both June 30, 1999 and December 31, 1999. At the time of the COLI transfer, PGH maintained sufficient current assets to provide sufficient liquidity of the \$20.6 million payable to PGE booked into PGH's books.

Records Availability, Audit Provisions and Reporting Requirements

The proposed ordering condition No. 1 provides the necessary records access to PGE's relevant books and records.

Based on review of the application, Staff concludes the following:

1. The intercompany receivable, at the time of the transfer, had no unusual or restrictive terms that would harm customers;
2. PGE met the requirements of the Commission's transfer pricing policy for affiliate transactions;
3. Customers are likely not harmed by this transaction, because the COLI's were not included in PGE's rates and did not affect PGE's equity and credit ratio; and
4. The application involves an affiliated interest transaction that is fair and reasonable and not contrary to the public interest, with the inclusion of the proposed ordering conditions.

PROPOSED COMMISSION MOTION:

PGE's application to enter into an affiliated transaction with PGH, including the five recommended conditions, be approved.