

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1292

In the Matter of)	
)	
PORTLAND GENERAL ELECTRIC)	ORDER
COMPANY)	
)	
Application for an accounting order related)	
to PGE's pension liability.)	

DISPOSITION: APPLICATION APPROVED

On December 21, 2006, Portland General Electric Company (PGE or the company) filed an application for an accounting order to authorize the company to record, on an ongoing basis, a regulatory asset or liability equal to the pre-tax charge against the company's Accumulated Other Comprehensive Income that would otherwise be required by the recognition of the pension funded status under Statement of Financial Accounting Standards (SFAS) 158, pursuant to ORS 757.120 and ORS 757.125. A description of the filing and its procedural history is contained in the Staff Report, attached as Appendix A, and incorporated by reference.

At its Public Meeting on February 6, 2007, the Commission adopted Staff's recommendation; however, approval is for accounting purposes only and does not impact the level of pension expenses included in the company's cost of service or net income, nor does it constitute authorization of any future ratemaking treatment of the costs associated with the regulatory asset.

ORDER

IT IS ORDERED that:

- 1) Portland General Electric Company's request for an accounting order to allow it to record, on an ongoing basis, a regulatory asset or liability equal to the pre-tax charge against its Accumulated Other Comprehensive Income, is approved.
- 2) Approval is for accounting purposes only and does not impact the level of pension expenses included in Portland General Electric Company's cost of service or net income, nor does it constitute authorization of any future ratemaking treatment of the costs associated with the regulatory asset.

Made, entered, and effective FEB 12 2007.

BY THE COMMISSION:



Becky L. Beier

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 by filing a petition for review with the Court of Appeals in compliance with ORS 183.480-183.484.

ITEM NO. CA3

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: February 6, 2007

REGULAR _____ CONSENT X EFFECTIVE DATE December 21, 2006

DATE: January 17, 2007

TO: Public Utility Commission

FROM: Carla Owings *CO* *EB* *JJ*

THROUGH: Lee Sparling, Ed Busch and Judy Johnson

SUBJECT: PORTLAND GENERAL ELECTRIC: (Docket No. UM 1292) Application for an Accounting Order Regarding Treatment of Accumulated Other Comprehensive Income for Funded Status of Pension and Other Postretirement Benefit Obligations.

STAFF RECOMMENDATION:

Staff recommends that the Commission approve Portland General Electric's (PGE or company) request for an accounting order to allow the company to record on an ongoing basis, a regulatory asset or liability, equal to the pretax charge against the company's Accumulated Other Comprehensive Income.

Approval is for accounting purposes only and does not impact the level of pension expenses included in the company's cost of service or net income, nor does it constitute authorization of any future ratemaking treatment of the costs associated with the regulatory asset.

DISCUSSION:

On December 21, 2006, PGE filed an application for an accounting order that would authorize the company to record, on an ongoing basis, a regulatory asset or liability that would otherwise be required by the recognition of the pension funded status under Statement of Financial Accounting Standards (SFAS) 158, pursuant to ORS 757.120 and 757.125.

On September 29, 2006, effective for fiscal years after December 15, 2006, SFAS issued SFAS 158 (Employer's Accounting for Defined Benefit Pensions and Other Postretirement Plans) with the intent of improving financial reporting with respect to the overfunded or underfunded status of defined benefit postretirement plans. The new SFAS 158 financial

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standard changes SFAS 87 by requiring that the funded status of postretirement plans be recorded on the balance sheet based on the Projected Benefit Obligation (PBO) rather than the Accumulated Benefit Obligation (ABO) as had previously been used.

Description of Cost:

The PBO is based on the present value of the plan's accrued benefits, including pay projections. The recognition of the funded status is offset by a charge to Accumulated Other Comprehensive Income (AOCI) in shareholders' equity, net of taxes. Prior to the implementation of SFAS 158, PGE would have recorded a pension asset of \$84 million. Instead, pursuant to the issuance of SFAS 158, PGE expects to record a pension asset of \$6 million based on the latest actuarial assessment. The difference of \$78 million will be recorded to AOCI (FERC Account 219), net of taxes.

Estimate of Amounts and Accounting treatment:

PGE expects to record for its fiscal year ending December 31, 2006, a reduction to the pension asset of \$78 million with an offsetting pretax charge to FERC account 219 (AOCI). The AOCI charge will be offset with approximately \$30 million in deferred income taxes related to this accounting requirement. However, PGE expects the AOCI charge to be reversed in future periods as a pension expense is recognized. This entry will have the immediate effect of reducing PGE's common equity capitalization.

To counter this effect, PGE requests to classify an estimated \$78 million as a regulatory asset in FERC account 182.3 (Other Regulatory Assets). This is an amount equal to the pretax charge against equity that would otherwise be necessitated by the recognition of the pension plan's funded status under SFAS 158. These entries would have no effect on PGE's income statement and thus would have no current tax effect. As previously stated, the regulatory asset will be amortized in future periods and the deferred tax will be eliminated as tax deductions for pension expense are recognized over time.

Absent an order allowing PGE to classify the costs as a regulatory asset, Generally Accepted Accounting Principles (GAAP) would require that these costs be treated as equity, which would have the immediate effect of reducing PGE's common equity capitalization.

Staff agrees that allowing the company to create and maintain the Regulatory Asset is the most reasonable approach in meeting the changing requirements of SFAS 158.

Staff and PGE both acknowledge that there will be no rate change associated with PGE's request to record and maintain a regulatory asset resulting from the requirement to recognize the funded status of the pension plan under SFAS 158.

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PROPOSED COMMISSION MOTION:

PGE's request for an accounting order to allow the company to record on an ongoing basis, a regulatory asset or liability, equal to the pretax charge against the company's Accumulated Other Comprehensive Income, be approved.

Approval is for accounting purposes only and does not impact the level of pension expenses included in the company's cost of service or net income, nor does it constitute authorization of any future ratemaking treatment of the costs associated with the regulatory asset.

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