PACIFIC POWER
A DIVISION OF PACIFICORP

825 NE Multnomah, Suite 2000
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November 19, 2020

VIA ELECTRONIC FILING

Public Utility Commission of Oregon
201 High Street SE, Suite 100
Salem, OR 97301-3398

Attn: Filing Center

RE: UE 374—Response to ALJ Bench Requests Set 2 (1 -4)

Pursuant to Administrative Law Judge (ALJ) Alison Lackey's Ruling of November 12, 2020, enclosed for filing in this docket are the Responses to ALJ Bench Request Nos. 2.1 through 2.4.

Please direct any questions regarding this filing to Cathie Allen at (503) 813-5934.

Sincerely,

Etta Lockey
Vice President, Regulation

Enclosures

ALJ Bench Request 2.1

Refer to Exhibit PAC/2100, Kobliha/11-12 (explaining that "absent settlement accounting being triggered, the same amounts would be recognized into pension expense over time and subject to recovery") and Exhibit PAC/300, Kobliha/31 (explaining that "[i]f not for this requirement [regarding settlement loss], such portion of the net actuarial loss would eventually flow through expense as part of the ongoing amortization over the approximately 21-year period.") Please confirm that the calculation of FAS 87 pension expense (or pension expense) in future years is affected by a FAS 88 expense (or pension settlement loss) occurring in a prior year. In addition to confirming this relationship, please describe the mathematical impact that a pension settlement loss has on the concurrent and future pension expense, if able to be explained without requiring actuarial recalculations. Please describe in general terms if actuarial recalculations would otherwise be required.

Response to ALJ Bench Request 2.1

Yes; "FAS 87" pension expense in future years is affected by a "FAS 88" pension settlement loss. Under settlement loss accounting, recognition of a portion of unrecognized losses (reflected in PacifiCorp's pension regulatory asset) is accelerated and recognized to expense as a settlement loss in the period triggered. Absent the settlement loss being triggered, the unrecognized loss would have continued to amortize over the average remaining lives of plan participants. The portion of unrecognized loss accelerated in settlement accounting is dependent on the amount of plan obligations settled as a result of lump sum distributions. The amount of obligations settled via lump sum distribution is compared to the total plan obligations; the resulting percentage is applied to unrecognized losses to determine the portion to immediately recognize as a settlement loss. To describe the mathematical impact in more detail would require actuarial calculations.

ALJ Bench Request 2.2

Refer to Exhibit PAC/300, Kobliha/30 (stating that PacifiCorp's filing reflects pension costs of $8.8 million for the test period, including a projected settlement loss of approximately $11.9 million).

(a) Please confirm that the $8.8 million cost for the test period represents a pension expense of approximately ($3.1 million), offset by the $11.9 million of settlement loss.

(b) Please explain whether, and if so how, the calculation of the ($3.1 million) expense was affected by the company's forecast pension settlement loss of $11.9 million for the test period. In the explanation, please specifically address whether the company's forecast ($3.1 million) pension expense was calculated *without regard* to the expected $11.9 million settlement loss for the test period, or whether it *was affected by* the expected test period settlement loss. If pension expense for the test period was affected by the settlement loss, provide the dollar amount by which it was affected, if known. Please include any citations to the existing record if such information is available within the record.

Response to ALJ Bench Request 2.2

(a) Yes; the ($3.1 million) represents projected negative net periodic benefit pension expense during the test period while the $11.9 million represents the projected settlement loss during the test period. Combined, these equal the $8.8 million of pension expense reflected in the test period.

(b) The ($3.1 million) of pension expense was calculated *without regard* to the expected $11.9 million settlement loss in the test period projection. This is because it is assumed the recognition of settlement accounting will take place at the end of the year. However, if the settlement were triggered and recognized earlier in the year (e.g., July 1), the current year (or test period in this case) net periodic benefit cost would need to be updated to reflect a mid-year remeasurement.

To explain further, amortization of the unrecognized gains and losses balance is based on balances at the end of the prior year using the year end re-measurement data, estimated balances as of December 2020 in this case. Whether or not a settlement loss occurs during the 2021 test period will not impact the amount of unrecognized gain or loss amortization assumed in the ($3.1 million) pension expense. Instead, the impact of a settlement loss occurring in 2021 would accelerate costs that would have started amortizing effective January 1, 2022 based on December 2021 re-measurement data. Amortization of the $11.9 million would no longer be part of pension expense starting January 1, 2022, with approximately 1/20th or $600,000 per year for 20 years having been brought forward into 2021. While this item reduces pension expense starting in 2022 there would also be other impacts to pension expense due to the settlement to consider making it difficult to conclude whether 2022 pension expense would be lower or higher than pension expense in the 2021 test year. Specifically, the lump sum distribution payments to plan participants (the amount compared to the threshold which caused the settlement) would reduce both the investment balance held in the pension trust and the projected benefit obligation. As a result, 2022 pension expense would increase due to lower assets in the pension trust earning an assumed 6.5 percent return but decrease due to a lower projected benefit obligation, currently accreting interest at a rate of 3.25 percent.

ALJ Bench Request 2.3

Refer to Exhibit PAC/2100, Kobliha/15 (proposing an alternative to Staff's recommendation and stating that "the Company is willing to accept approval to defer any settlement losses with authorization to recover those losses over the underlying period over which the amount would have been recognized absent settlement accounting").

(a) Please clarify whether the Company's proposal is to defer *all* future settlement losses for amortization over the periods in which such losses would otherwise be amortized absent settlement accounting, or if the proposal is to defer only the *test period projected losses* of 11.9 million for amortization over the period in which it would have been recognized absent settlement accounting.

(b) Provide the number of years over which the amortization of the *test period settlement loss* of $11.9 million would take place under the Company's proposal. If known, please provide the annual dollar amount of such amortization.

Response to ALJ Bench Request 2.3

(a) The Company's alternative proposal to Staff's recommendation in the referenced statement is to defer all future actual settlement losses with amortization and recovery to occur based on the underlying amortization period absent settlement accounting. Amortization of any future settlement losses would begin the year incurred.

(b) The test period settlement loss under the alternative proposal described in subpart (a) would be amortized over the average remaining life of plan participants, currently approximately 20 years equating to $0.595 million per year for the projected test period settlement loss.

ALJ Bench Request 2.4

Refer to Partial Stipulation filed August 17, 2020, at 5 ("PacifiCorp agrees to provide two reports for all pilot programs: one after 15 months of experience that discuss lessons learned from the pilot's first year and one after the pilot ends that assesses the lessons, information and data gleaned in conducting the pilot").

(a) Confirm the duration applicable to each pilot program.

(b) If the pilot programs do not have a set duration, explain why not. Address whether three years would be an appropriate time frame for assessing the pilot.

Response to ALJ Bench Request 2.4

(a) The pilots will run for three years. The final reports which will be filed after the three-year period will discuss the disposition of each pilot which may include recommendations to expand, modify, or terminate the pilot tariffs. The tariffs will not be set to automatically cancel at the end of the pilot's duration until the Commission takes action on the recommendations of the final report.

(b) Please refer to the Company's response to subpart (a) above. In its final report, the Company may request further time if the Company is not able to collect enough information.