December 19, 2013

Via Electronic Filing and U.S. Mail

OREGON PUBLIC UTILITY COMMISSION
ATTENTION: FILING CENTER
PO BOX 1088
SALEM OR 97308

RE: Docket No. UM 1633 – In the Matter of
PUBLIC UTILITY COMMISSION OF OREGON
Investigation into Treatment of Pension Costs in Utility Rates.

Enclosed for electronic filing in the above-captioned docket is the Public Utility Commission Staff’s Reply Redacted Testimony.

/s/ Kay Barnes
Kay Barnes
Filing on Behalf of Public Utility Commission Staff
(503) 378-5763
Email: kay.barnes@state.or.us

c: UM 1633 Service List (parties)
In the Matter of the
PUBLIC UTILITY COMMISSION OF OREGON
Investigation into Treatment of Pension Costs in Utility Rates.

REDACTED
December 19, 2013
CERTAIN INFORMATION CONTAINED ON PAGE 6 OF STAFF EXHIBIT 100 IS CONFIDENTIAL AND SUBJECT TO PROTECTIVE ORDER NO. 13-013.

YOU MUST HAVE SIGNED APPENDIX B OF THE PROTECTIVE ORDER TO RECEIVE THE CONFIDENTIAL VERSION OF THIS EXHIBIT.
Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is Brian Bahr. I am a Senior Utility Analyst in the Energy - Rates, Finance, & Audit Section of the Oregon Public Utility Commission. My current business address is 3930 Fairview Industrial Dr SE, Salem, Oregon 97302.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE.

A. My Witness Qualification Statement is found in Exhibit Staff/101.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to address the issue of pension cost recovery and to respond to the joint utilities’ proposal.

Q. DID YOU PREPARE AN EXHIBIT FOR THIS DOCKET?

A. Yes. I prepared Exhibit Staff/101, consisting of 1 page, Confidential Exhibit Staff/102, consisting of 13 pages, and Exhibit Staff/103, consisting of 38 pages.

Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. My testimony is organized as follows:

- Part I – Introduction
- Part II – Background
- Part III – Analysis
- Part IV – Conclusion

PART I – INTRODUCTION

Q. PLEASE STATE A SUMMARY OF STAFF’S RECOMMENDATIONS IN THIS DOCKET.


A. Staff's primary recommendation is to disallow the inclusion in rate base of any of the current prepaid pension asset / accrued pension liability (ppa/apl) account balance. The associated deferred tax asset or liability on the current balance should also be excluded from rates. Financial Accounting Statement (FAS) 87 should continue to be used to as a proxy for pension costs in setting rates, and the utilities should have the opportunity to recover the financing cost of any ppa/apl account balance accumulating prospectively that is not associated with excess pension investment returns achieved. The prospective ppa/apl account balance should be offset proportionately by the associated deferred tax asset or liability and receive a return reflective of a shorter amortization period, as determined through individual ratemaking proceedings for each utility.

Staff's alternate recommendation is for the Commission to allow the utilities the opportunity to recover a return on a portion of both the current and prospective ppa/apl account balances and to continue the use of FAS 87 to set rates. However, the current ppa/apl account balance should be netted against the difference between pension costs recovered in rates and actual FAS 87 expense, exclude the portion of the amount accumulated due to excess investment earnings by the companies, and be offset by the proportionate amount of the associated accumulated deferred tax asset/liability. A lower rate of return on the amount than the Commission-authorized one is appropriate, and can be determined through individual rate cases based on the circumstances of each utility.
PART II – BACKGROUND

Q. PLEASE PROVIDE A DEFINITION OR EXPLANATION OF SOME OF THE KEY TERMS REFERENCED IN STAFF’S TESTIMONY.

A. Cash Expense: The cash expense, in the context of this docket, is the amount of money actually outlaid, or ‘contributed,’ by a company to its pension fund. Once the money has been transferred to the pension fund, it becomes part of the pension asset (not the prepaid pension asset), which is invested. This asset base is used to pay out the pension benefits of the employees. Neither the cash contributions nor the investment returns can be withdrawn from the pension fund by the company.

Accrual Expense: An accrual expense differs from a cash expense in that it recognizes a cost that has been incurred, but not yet paid. For example, for each day an employee works, the employer would incur an accrual expense; the cash expense would only be incurred when the employer pays the employee. In the context of pensions, accrual expense is somewhat synonymous with FAS 158, FAS 87, and FAS 88, cumulatively codified as Accounting Standards Codification (ASC) 715, which prescribes the appropriate accounting treatment of pensions. Note that most companies generally use accrual accounting for financial reporting purposes, but cash accounting for rate recovery and tax purposes.
FAS 87 Expense: Financial Accounting Standard No. 87, in conjunction with FAS 88 and FAS 158, defines the appropriate accounting treatment of pension costs. It is an accrual expense, and because cash contributions can be volatile from year to year, FAS 87 essentially acts as a smoothing mechanism for the company’s financial statements to help show a more consistent cost from year to year. Note that due to its calculation, which is explained in more detail in Mr. Vogl’s testimony, the cumulative annual FAS 87 expense amount will equal the cumulative cash paid by a company into its pension fund.

Prepaid Pension Asset / Accrued Pension Liability (ppa/apl): The ppa/apl account is an accrual account that simply indicates the difference between cumulative cash expenses and cumulative accrual expenses. If a company has outlaid more cash into its pension fund than it has recognized on its accrual accounting records, there will be a positive balance in this account, which is called a prepaid pension asset. If the company has recognized more accrual expense than it has actually paid in cash, it will have a negative account balance, known as an accrued pension liability. Because cumulative cash contributions and cumulative annual FAS 87 expense amounts will equal each other at the end of the pension plan life, the ppa/apl account balance will also equal zero at the end of the plan’s life.

1 See Joint Testimony/200, Vogl/3-6.
Pension Cost: As Mr. Vogl describes in his testimony, the term ‘pension cost’ can actually refer to either the cash expense or to the accrual expense.\(^2\)

**Q. WHAT IS A COMPANY’S ACTUAL PENSION COST FOR THE PURPOSES OF FUNDING ITS PENSION PLAN?**

**A.** For rate recovery purposes, the actual cost to a company of funding its pension plan is simply its cash outlays. However, those cash outlays may not be recovered immediately through ratemaking, even though they will be recovered in the future. Because of this timing difference, which is represented by the ppa/apl account, the utilities are now requesting recovery of this financing cost on their ppa/apl account balances.

**Q. WHAT IS THE CALCULATION OF THE PPA/APL ACCOUNT BALANCE?**

**A.** Mr. Vogl gave a descriptive explanation of the components of the ppa/apl account in his testimony, which Staff will not repeat here. In summary, the ppa/apl is affected by cash paid by a utility to its pension fund and by the company’s annual FAS 87 expense. FAS 87 expense is affected by, among other variables, cash contributions to the fund from the company and by the return on the pension fund assets (ie. the investment base). If, all else being equal, a company’s investment base were increased either through additional cash contributions or through successful investment management, this would in turn decrease FAS 87 expense and contribute to an increase in the ppa/apl account balance.

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\(^2\) See Joint Testimony/200, Vogl/3.
Q. PLEASE DESCRIBE THE GROWTH TRENDS OF THE PPA/APL ACCOUNT BALANCE FOR EACH OF THE UTILITY COMPANIES.

A. Included below is a table illustrating the ppa/apl account balance for each of the six utilities from 1992 through 2012, in five year increments. Note that a negative amount would indicate an accrued pension liability. In other words, the utility would have recognized more cumulative FAS 87 expense than it had actually paid in cash into its pension fund. A full table showing annual ppa/apl account balances since 1987 can be found as Confidential Staff Exhibit 102.

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<td>Cascade</td>
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<td>NW Natural</td>
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<td>PacifiCorp</td>
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<td>PGE</td>
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Several interesting facts can be gleaned from the information in this table. The most obvious is that IPCo, in contrast to the other five utilities, currently has a negative balance in its ppa/apl account. Second, over 50 percent of the current balances of Cascade, NW Natural, and PGE accumulated prior to 2008, the time at which the two events occurred (the Pension Protection Act and the financial crisis) that the joint utilities claim caused the recent significant increase

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3 See Confidential Exhibit Staff/102 for the complete table.
in ppa/apl balances.\(^4\) Finally, note that most utilities had negative account balances in some past years.

**Q. WHAT ARE THE TAX EFFECTS OF THIS DIFFERENCE BETWEEN CASH EXPENSE AND ACCRUAL EXPENSE?**

**A.** As explained previously, there is a difference between a company’s cash expense and its accrual expense. The IRS generally taxes a company based on its cash expenses, but its financial reporting is presented using accrual accounting. The ppa/apl account indicates the difference between cash expense and accrual expense for pensions, and has an offsetting account to recognize the deferred tax asset or liability. A prepaid pension asset results in a deferred tax asset (benefit), and an accrued pension liability results in a deferred tax liability.

**Q. DOES RATEMAKING TYPICALLY FOCUS ON CASH OR ACCRUAL EXPENSES?**

**A.** Ratemaking typically focuses on cash expenses, rather than accrual expenses, and treats these as the actual costs to a utility for recovery purposes. In the case of a capital investment, the utility will not only be allowed the opportunity to recover its cost, but also the financing cost of the capital through the inclusion in rate base of Allowance for Funds Used During Construction for capital investment being built, and then the cost of the capital investment if purchased or when building is completed.

\(^4\) See Joint Testimony/100, Joint Parties/10.
Q. PLEASE DESCRIBE HOW THE PPA/APL ACCOUNT IS SIMILAR AND
   DISSIMILAR TO BOTH AN EXPENSE AND A CAPITAL INVESTMENT.

A. In the past (specifically, in recent rate cases in which a utility proposed
   recovery of the financing cost of its ppa/apl account balance), part of the
   discussion has revolved around whether the ppa/apl account balance
   represents an expense or an investment. The joint utilities have claimed the
   ppa/apl account is similar to an investment and a return on its balance should
   be allowed in ratemaking. Others have argued that it is more similar to an
   expense, and to grant recovery on it would constitute retroactive ratemaking.
   The ppa/apl account is actually neither an expense nor an investment, though
   it has similar and dissimilar characteristics to both.

   From an accounting perspective, an expense indicates a cost over a period of
   time (ie. an annual expense), whereas an asset or liability indicates the value
   of something as of a specific point in time (ie. the December 31 value of a bond
   or a transmission line). Generally, assets and liabilities will appear on a
   balance sheet, whereas expenses will appear on an income statement.

   The definition of an investment according to Investopedia is, “An asset or item
   that is purchased with the hope that it will generate income or appreciate in the
   future.” Merriam-Webster gives a similar definition, “the outlay of money
   usually for income or profit.” The ppa/apl account is similar to an investment
   in that it represents an outlay of money insofar as it represents cumulative cash
   outlays in excess of accrual expenses, but this is only applicable if there is a

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positive account balance. In fact, the ppa/apl account can have either a
positive or negative account balance. Also, both definitions mention that an
investment is made for the purpose of generating income or profit; however,
the ppa/apl account does not serve this purpose.

If the ppa/apl is neither an expense nor an investment, what is it? It is an
accrual account indicating the expectation of a future expense or benefit
related to the difference between cash outlays and accrual expense.

A balancing account is a regulatory concept that usually tracks the difference
between forecasted expenses put into rates and actual expenses. Balancing
accounts are temporary, can have a positive or negative balance, and can be
cleared annually through a rider or refund. The ppa/apl account is established
according to accounting rules, but can be thought of as acting like a balancing
account between a company’s cash expense and its accrual expense in the
sense that it nets activity over a period of time. It can have a positive or
negative balance and will eventually have a zero balance in the long term.
However, it is not annually cleared as a balancing account would for the
purposes of ratemaking.\(^7\)

Finally, it should be noted that the capital investments can affect future costs,
whereas expenses do not. In this sense, the ppa/apl account is similar to a
capital asset.

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\(^7\) See NW Natural’s response to Staff Data Request No. 35, included as Exhibit Staff/103, Bahr/1.
Q. PLEASE RESPOND TO THE JOINT UTILITIES’ COAL PLANT FUEL STOCK ANALOGY.8

A. The joint parties’ opening testimony discusses how fuel stock for a coal plant has two costs that the Commission typically allows to be recovered in rates, both the actual cost of the coal as well as the financing cost of the coal stock that is maintained. The joint utilities state, “The prepaid pension asset balance represents pre-payments of FAS 87 expense that are analogous to the stock of coal.”

Staff notes several key differences between fuel stock for a coal plant and the ppa/apl account. The first is that the ppa/apl account balance can be either positive or negative, whereas fuel stock by nature cannot have a negative value, although a change in inventory level can be a negative. The fuel stock will always be tying up investment dollars, whereas the ppa/apl account will only tie incur financing costs during the time it has a positive balance. The joint utilities did not discuss the fact that many of them had negative account balances in the past that represented cumulative FAS 87 amounts in excess of cash actually paid by the companies into pension funds. In requesting a return on their current positive balances, they fail to address how this is equitable considering that it would be fair to expect them to refund to customers past financing costs of the amount paid by customers in excess of the utilities’ actual cash expense.

8 See Joint Testimony/100, Joint Parties/13.
A second difference between fuel stock for a coal plant and the ppa/apl account is that the fuel stock is a necessity of running a coal plant; the utility company would have invested in the coal plant having already considered the expected fuel stock it would need on hand to run the plant (the fuel stock was generally known and measurable). Conversely, in considering pension costs in the past, the utilities did not expect the ppa/apl account balance to grow to a significant amount.

An additional difference is in the depreciation of the fuel stock and the ppa/apl account. Fuel stock depreciation will be based on either the FIFO or LIFO method of cost identification, and will change as prices are negotiated in new contracts. The depreciation of the ppa/apl account balance, which occurs through FAS 87 expense, is different in that there is no determined depreciation period, the depreciation is not consistent over time, and there are many variables affecting the calculation of FAS 87. In response to data requests, utilities have stated that the duration of the ppa/apl balance is unknown and difficult to forecast given the unpredictability and complexity of variables.9

Q. HOW HAVE PENSION COSTS BEEN TREATED HISTORICALLY BY THE COMMISSION?

A. FAS 87 was required to be implemented by companies by at least 1987 for financial reporting purposes, at about which time it also began appearing in

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9 See Exhibit Staff/103, Bahr/2-4 for examples of company responses to Staff data requests indicating the difficulty in making such a forecast.
rate cases.\textsuperscript{10} Some companies did not change their recovery method until
1998.\textsuperscript{11} The ppa/apl account was not addressed in the past because it either
carried an insignificant balance or because it benefitted the company (an
accrued pension liability position). It was apparently not expected that the
account balance would grow to a significant balance, either positive or
negative. Below is a table indicating the year for each company that FAS 87
was first used to set rates.

Table 2. Year and Docket in which FAS 87 Was First Used To Set Rates\textsuperscript{12}

<table>
<thead>
<tr>
<th>COMPANY</th>
<th>YEAR</th>
<th>Docket No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Avista</td>
<td>1997</td>
<td>N/A</td>
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<tr>
<td>Cascade</td>
<td>1989</td>
<td>UG 86</td>
</tr>
<tr>
<td>IPCO</td>
<td>1995</td>
<td>UE 92</td>
</tr>
<tr>
<td>NW Natural</td>
<td>1986</td>
<td>UG 38</td>
</tr>
<tr>
<td>PacifiCorp</td>
<td>1998</td>
<td>UE 111</td>
</tr>
<tr>
<td>PGE</td>
<td>1991</td>
<td>UE 79</td>
</tr>
</tbody>
</table>

Prior to FAS 87, cash contributions generally were used to define pension
costs and set rates. Some jurisdictions, including Idaho, still use cash
contributions in setting rates. Since its inception until now, FAS 87 has been
used in Oregon as a proxy for cash contributions when setting rates, as it tends
to be less volatile than actual cash contributions. Even though companies
have not included the financing cost of their ppa/apl account balances in rates,

\textsuperscript{10} See NW Natural’s response to CUB Data Request No. 11, included as Exhibit Staff/103, Bahr/5.
\textsuperscript{11} See PacifiCorp’s response to Staff Data Request No. 26, included as Exhibit Staff/103, Bahr/6.
\textsuperscript{12} See companies’ responses to CUB Data Request No. 13 and NW Natural’s response to CUB Data Request No. 11, included as Exhibit Staff/103, Bahr/7-16.
some companies have included the associated deferred tax asset or liability in rates while others have not.

**Q. HAS FAS 87 ACCURATELY REFLECTED COMPANIES’ ACTUAL CASH OUTLAWS?**

**A.** To date, as evidenced by the current balances of the joint utilities’ ppa/apl accounts, it must be concluded that FAS 87 has not been an accurate reflection of the companies’ actual cash outlays from a short term perspective. However, as explained earlier, in the long run the actual cumulative FAS 87 expense will equal total cash outlays from the companies to their pension funds.

**Q. HAVE ANY OF THE UTILITIES PROPOSED CHANGES TO PENSION COST RATEMAKING TREATMENT IN THE PAST?**

**A.** Yes. In UG 221, NW Natural proposed recovery of its financing cost. It is out of that docket that this general investigation was ordered. Since that time, PGE, PacifiCorp, and Avista have all filed general rate cases requesting recovery of the financing cost of the ppa/apl account balance. In addition, NW Natural and PGE have both filed deferred accounting applications to capture the pension cost not currently being recovered in rates.

**Q. WHAT IS THE JOINT UTILITIES’ PROPOSAL IN THIS DOCKET?**

**A.** The joint utilities acknowledge that FAS 87 will, in the long term, equal cash contributions, and are therefore not requesting a return of their prepaid pension

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13. See UG 233, UE 262, UE 263, and UG 246 for the general rate cases in which recovery was requested by NW Natural, PGE, PacifiCorp, and Avista.

14. See UM 1619, UM 1623, UM 1630, and UM 1642 (which was filed by PacifiCorp and subsequently rescinded).
assets. They are, however, requesting that they be granted a return on the balances, which would allow them to recover their financing costs associated with the cash outlay in excess of the cumulative accrual expense. In conversation with the utilities, Staff understands their proposal is to offset the ppa/apl account balance with the associated deferred tax asset or liability. IPCo, which has an accrued pension liability rather than a prepaid pension asset like the other five utilities, has not proposed any change to current ratemaking treatment of pension costs.

**PART III – ANALYSIS**

Q. PLEASE DESCRIBE HOW STAFF ANALYZED THE JOINT UTILITIES’ PROPOSAL AND THE ISSUE OF PENSION COST RECOVERY.

A. Staff made 158 data requests to the companies and reviewed the responses to these and numerous others from CUB and ICNU. Staff also reviewed previous Commission orders, workshop presentations, accounting pronouncements, and testimony filed in other states.

Upon gaining a clearer understanding of the basic issues in this docket, Staff considered two primary issues. The first issue is the treatment of the current ppa/apl account balances of the utilities, which have been accumulating since approximately 1987 as companies have recognized FAS 87 expense amounts different from the amount of cash outlaid. The second issue is the treatment of pension costs in ratemaking going forward, and what to do, if anything, with any accumulation of the ppa/apl account occurring due to the difference between future cash contributions and FAS 87 expense.
Q. PLEASE DESCRIBE STAFF’S ANALYSIS OF THE FIRST POLICY ISSUE RELATED TO THE CURRENT PPA/APL ACCOUNT BALANCE.

A. The following questions were identified by Staff as key to determining the policy issue relating to the current ppa/apl account balance.

1. *Would allowing a return on the current balance of the ppa/apl accounts of the utilities constitute retroactive ratemaking?*

   This is a legal issue to be addressed in briefs, rather than testimony. Generally, if the ppa/apl account balance were deemed an expense, retroactive ratemaking would legally prevent its recovery. However, if the ppa/apl account balance were deemed akin to an investment, retroactive ratemaking would not legally prohibit future recovery or financing costs of the balance.

2. *Would allowing a return on the current balance of the ppa/apl accounts of the utilities constitute single-issue ratemaking?*

   The next question with regard to the current balance of the utilities’ ppa/apl accounts is whether the utilities should be allowed a return on the current account balance, given that rates are set holistically for utilities and these balances arise from past years. One could argue that allowing the recovery of the current ppa/apl account balance would be tantamount to “cherry picking” one item that had not been included at the time overall just and reasonable rates were set.

   For illustration, deferred accounting allows retroactive ratemaking for certain expenses, but it requires an earnings review of overall rates before it
determines whether or not recovery of the deferred expense is warranted. In
this proceeding, the joint utilities are requesting a return on a ppl/apl balance
that accrued in the past, in isolation of other items that changed during that
same period of time, and without a review of overall earnings during the past
periods these ppa/apl balances were accrued.

In addition, because the cash expenses occurred in the past, any attempt to
review the prudence of those cash outlays through a prudence review might
be difficult. A potential prudence review could simply be based upon whether
or not the utility paid the minimum contribution amount required by ERISA;
however, this, or any other, prudence review would still need to be applied
retroactively. Alternatively, the joint utilities would likely contend that because
they are requesting a return on a current balance, a prudence review would
not be appropriate because it would be considering past expenses.

The joint utilities have stated that the ppa/apl balance is a current balance
for which they will incur financing costs in the future. When considering single
issue ratemaking, the question becomes whether or not the joint utilities
should have, or were required, to ask for recovery of the financing costs of the
ppa/apl balance at the time the balances were accruing. For a typical plant
investment, timing of the recovery request does not seem to be an issue
because the plant is depreciating and the utility is suffering regulatory lag.

Staff notes, however, that land is a capital asset that is included in rate base
but does not depreciate.
Because a utility is aware that a general rate proceeding will review all costs, the utility would typically only file a general rate proceeding when overall rates warranted recovery, versus the single issue of the plant investment. In this situation, the proposed recovery of the financing costs of the ppa/apl balance is complicated by the fact that the ppa/apl account balance can not be categorized as a typical investment or a typical expense.

3. Would allowing a return on the current balance of the ppa/apl accounts of the utilities be permissible absent an accounting order declaring the account balance a regulatory asset?

Another question is whether an accounting order from the Commission declaring the ppa/apl account balance a “regulatory asset” is necessary in order to allow them to include it in rate base. This question is also of a legal nature and will be addressed in briefs. Staff sent a data request to the utilities asking why they had not requested an accounting order declaring the ppa/apl account balance a regulatory asset and received varying responses.

In their responses, Avista and Cascade noted that their request in this docket is for the Commission to determine that the prepaid pension asset is a regulatory asset that should be treated as a rate base item for ratemaking purposes.\footnote{See Avista’s response to Staff Data Request No. 30 and Cascade’s response to Staff Data Request No. 32, both included as Exhibit Staff/103, Bahr/17-18.} PGE and NW Natural both explained that they received approval in 2007 through Commission orders for accounting orders related to their
pension liabilities, with which their prepaid pension assets are associated.\textsuperscript{16}

PacifiCorp responded that while the prepaid pension asset is not a regulatory asset in the traditional definition, a component of the prepaid pension asset is reflected in regulatory assets because the prepaid pension asset is the sum of the underfunded status of its pension plan (recorded as a liability) and the associated unrecognized gains and losses, which are recorded as a regulatory asset.\textsuperscript{17}

4. \textit{What portion of the current ppa/apl account balance represents an actual cost to the utility of funding its pension plan?}

As explained earlier and in Mr. Vogl’s testimony, the ppa/apl account balance is affected by two things, the cash paid by a utility into its pension fund and its actuarially calculated FAS 87 expense. The FAS 87 expense is in turn affected by, in addition to other variables such as discount rate and long term expected market rate of return, the fund’s investment base. The investment base can be increased either through successful investment management of the pension funds or by cash contributions. The decrease in FAS 87 expense, and corresponding increase in ppa/apl account balance, due to successful investment management of the pension fund does not represent an actual cost to utilities that should be borne by customers.

An additional question is whether the accumulation of the account balance prior to 2008 should be included. The utilities claim that the ppa/apl account

\textsuperscript{16} See PGE’s response to Staff Data Request No. 31, which includes a copy of Order No. 07-051, and NW Natural’s response to Staff Data Request No. 31, which includes a copy of Order No. 07-030, included as Exhibit Staff/103, Bahr/19-30.

\textsuperscript{17} See PacifiCorp’s response to Staff Data Request No. 35, included as Exhibit Staff/103, Bahr/31.
balance increased dramatically due principally to the two events that occurred in 2008, the Pension Protection Act and the financial crisis, as described in the opening testimony of the joint parties. However, as can be observed in Table 1 above, only Avista’s and PacifiCorp’s accounts truly seem to fit that narrative.

Cascade, NW Natural, and PGE all accumulated over 50 percent of their current balances prior to 2008, and IPCO currently has a negative balance.

A question has also arisen about whether, if the Commission allows a return to be granted on a portion of the current ppa/apl account balances, if the account balances should be offset by the difference between cumulative pension expense recovered in rates and cumulative actual FAS 87 expense. By performing this true-up, the Commission could ensure that customers would not be essentially charged twice for the same cost. However, there could be complications in determining the amount of pension expense included in rates, as rates were sometimes set using negotiated settlements that did not identify the specific expense components.

Staff described the accumulated deferred tax asset/liability associated with the ppa/apl account above in the Background section of testimony. Should the Commission allow recovery of the financing cost of a portion of the current ppa/apl account balance, Staff recommends that the proportionate amount of the accumulated deferred tax asset/liability offset the amount of the current ppa/apl account balance on which a return is allowed.

Finally, should the Commission allow recovery on a portion of the current ppa/apl account balance, it must also address whether the Commission-
authorized rate of return should be applied or a lower rate, more
commensurate with that of something like a typical balancing account. Staff
discussed earlier in testimony some of the characteristics of the ppa/apl
account. Given the varying circumstances of each utility, the rate of return
could be determined individually in general rate cases.

Q. WHAT IS STAFF’S RECOMMENDATION WITH REGARD TO THE
PROPOSED INCLUSION OF THE CURRENT PPA/APL ACCOUNT
BALANCES IN RATE BASE?

A. Staff defers to counsel to address the legal issues of retroactive ratemaking
and accounting orders in briefs. Contingent on resolution of these issues, Staff
believes that a financing cost of cash outlays in excess of those recognized
under accrual accounting and regulatory recovery mechanisms does represent
a real cost to the companies and could be recovered in rates. However, Staff
does not recommend inclusion of the utilities’ current ppa/apl account balances
in rate base as proposed by the joint parties. As it is associated with the
ppa/apl account, the accumulated deferred tax asset/liability associated with
the amount of ppa/apl not allowed in rates should be excluded from rates.

Rates in the past were set holistically and the pension cost was included in
overall rates. Regulatory recovery is generally based upon cash expenses, not
accrual. FAS 87 was used as a proxy for cash costs, not as the actual cost
itself. The utilities are correct in claiming that FAS 87 alone does not recover
the true pension cost of the utility, but that does not mean the Commission
should consider a single issue in isolation of all other issues that occurred during past periods.

Alternatively, Staff’s secondary recommendation is to grant the utilities a return on a portion of their current ppa/apl account balance. The portion on which a return would be allowed would be subject to a true-up of actual FAS 87 expenses versus the amount of pension costs recovered in rates, exclude the portion accumulated prior to 2008, exclude the portion associated with excess investment returns, be offset by the proportionate amount of the associated accumulated deferred tax asset/liability, and be subject to a lower rate of return than the Commission-authorized rate of return approved for the company.

Q. PLEASE DESCRIBE STAFF’S ANALYSIS OF THE SECOND POLICY ISSUE RELATED TO ANY PPA/APL BALANCE ACCUMULATED GOING FORWARD.

A. Staff’s analysis of the second policy issue is similar to the first, except less the discussion of retroactive ratemaking. The questions still need to be considered of whether or pensions should be treated in isolation of other general rate case expenses (through the use of a tracker or true-up mechanism such as an automatic adjustment clause), on what portion of the balance does the financing cost represent an actual cost to the utility, what rate of return should be allowed, and whether the Commission should continue using FAS 87 to approximate the pension cost of a utility.

Q. WHAT IS STAFF’S RECOMMENDATION WITH REGARD TO SETTING RATES TO ALLOW RECOVERY OF PENSIONS COSTS PROSPECTIVELY?
A. Staff supports the inclusion in rate base of ppa/apl account balances accumulating in the future (beginning at zero as of this docket), but not the current balance. The balance to be included in rates should be reduced by the portion of the balance due to excess earnings rather than cash contributions, and offset by a proportionate amount of the associated accumulated deferred tax asset/liability. The rate of return on the prospective ppa/apl balance should be specific to each utility and can be determined in future ratemaking proceedings.

Because of the inconsistency and unpredictability of cash contributions, Staff believes the Commission should continue to use FAS 87 in setting rates. This also will facilitate the use of FAS 88 to allow the utilities to recover their prudently incurred costs if the company decides to terminate its plan prior to its natural life end. Staff does not believe that a tracker or true-up mechanism should be implemented prospectively for the purpose of tracking the amount included in rates and actual FAS 87 expense.

Q. WOULD THERE BE ANY COMPLICATIONS WITH THE IMPLEMENTATION OF STAFF’S RECOMMENDATION?

A. Possibly. Based on responses from the companies to data requests issued by Staff, it is unclear if it would be possible to extricate from the ppa/apl balance the effects of investment earnings above expected and the accumulation of differences between cash contributions and FAS 87 expense prior to 2008.\(^\text{18}\)

Additionally, because many cases are settled through a “black box”

\(^{18}\) See Exhibit Staff/103, Bahr/32-38 for examples of company responses to Staff data requests indicating the difficulty of determining this amount.
negotiation, the pension cost put into rates likely would have to be estimated in order to find the difference between amounts recovered in rates and actual FAS 87 expense.

**PART III – RECOMMENDATIONS SUMMARY**

Q. PLEASE PROVIDE A SUMMARY OF STAFF’S RECOMMENDATIONS.

A. Staff’s recommendation is contingent upon a legal review of the issues of retroactivity and accounting orders, which will occur in briefs later in this docket. Staff believes that a utility should be allowed to recover its prudently incurred costs, which are typically interpreted as its outlay of cash for regulatory cost recovery purposes. Because FAS 87 is an accrual expense, and the ppa/apl account balance trues up the cumulative accrual expense to the actual amount of money outlaid by a company, utility companies should be allowed to earn a return on their ppa/apl account balances through rates. However, for the reasons specified earlier, Staff recommends that the portion of the ppa/apl balance accumulated prior to the present be excluded from the amount on which a return is allowed. Staff also recommends that the inclusion of any prospectively accumulated balance of the ppa/apl account exclude any accumulation due to excess investment returns rather than cash contributions and be offset by the proportionate amount of accumulated deferred tax asset/liability of each. The return on the prospective ppa/apl balance should be specific to each utility and can be determined in future ratemaking proceedings. Staff agrees with the joint utilities’ proposal to continue the use of FAS 87 to set rates, which allows companies the opportunity to recover prudent costs.
through FAS 88 if the plan is terminated prior to the end of its natural life. Staff
does not recommend the use of a tracker going forward to true up costs in
rates with actual costs.

Alternatively, Staff’s secondary recommendation is the ppa/apl account
balance accumulated as of 2008 be allowed for recovery of its financing cost,
as it represents an actual cost to the utility of funding its pension plan. As in
Staff’s primary recommendation, the balance would exclude amounts due to
excess earnings, be subject to a true-up of pension costs in rates and actual
FAS 87 expense, be netted against the proportionate amount of associated
accumulated deferred tax asset/liability, and be subject to a lower rate of return
than the company’s overall rate of return approved by the Commission.

Q. DOES THIS CONCLUDE STAFF’S TESTIMONY?

A. Yes.
PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 101

Witness Qualifications Statements

December 19, 2013
WITNESS QUALIFICATION STATEMENT

NAME: BRIAN BAHR

EMPLOYER: PUBLIC UTILITY COMMISSION OF OREGON

TITLE: SENIOR UTILITY ANALYST

ADDRESS: 3930 FAIRVIEW INDUSTRIAL DR. SE, SALEM, OR 97302

EDUCATION: Certificate of Public Management, Willamette University, Salem OR

Bachelor of Science, Accountancy, Brigham Young University, Provo UT

EXPERIENCE: Employed with the Oregon Public Utility Commission from March 2011 to present, currently serving as Senior Utility Analyst in the Rates, Finance, & Audit Section of the Energy Division.

Employed by Modern Seouf Plastics in Alexandria, Egypt as a Managerial Intern from January 2010 to June 2010. Assisted in variety of duties including supervision of production facilities and staff, market analysis, budget forecasting, sales, and office administration.

Employed by PricewaterhouseCoopers LLP in New York City as a Financial Assurance Associate from October 2007 to November 2009. Performed audits of various financial institutions, including investment banks, hedge funds, and insurance companies.

Employed by TESRA, SA in Antofagasta, Chile as a Project Management Assistant from September 2005 to April 2006. Assisted in design process and implementation of railroad crossing and other civil engineering projects.
PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 102

Exhibits in Support
Of Reply Testimony

REDACTED
December 19, 2013
STAFF EXHIBIT 102

IS CONFIDENTIAL AND SUBJECT TO

PROTECTIVE ORDER NO. 13-013. YOU MUST HAVE SIGNED

APPENDIX B OF THE PROTECTIVE ORDER IN

DOCKET UM 1633 TO RECEIVE THE

CONFIDENTIAL VERSION

OF THIS EXHIBIT.
PUBLIC UTILITY COMMISSION
OF
OREGON

STAFF EXHIBIT 103

Exhibits in Support
Of Reply Testimony

December 19, 2013
Rates & Regulatory Affairs

UM 1633 – Investigation into
Treatment of Pension Costs in Utility Rates

Data Request Response

**Request No.** UM 1633-OPUC-DR 35:
Please provide a discussion of the similarities and differences between the characteristics of the prepaid pension asset and a typical balancing account.

**Response:** 12/13/2013

The prepaid pension asset acts much like a balancing account in the sense that it nets activity over a period of time (e.g. market changes, contributions, expense, changes in actuarial assumptions, etc.). The net result could be a prepaid asset or an accrued liability.

There are differences, however, between a prepaid pension asset and a typical balancing account. A typical balancing account would likely be a regulatory concept whereby differences between costs (or revenues) embedded in customer rates and actual costs (or revenues) are accumulated. These differences would usually be put into rates through a surcharge or refund. A prepaid pension asset, on the other hand, is established in accordance with accounting rules.
Request No. 30

Date prepared: December 16, 2013
Preparer: Michael Parvinen
Contact: Michael Parvinen
Telephone: 509-734-4593

A30. Please provide the forecasted prepaid pension asset balance at year end annually from 2013 through the end of the company’s pension plan. Please identify and explain all assumptions used.

Response:

Response to OPUC 24 shows a prepaid pension asset (system) of $11,079,549 as of 12/31/12. The latest actuary report identifies the expected contributions and FAS 87 expense as:

Please see attached for calculation of prepaid asset through 2018. No additional information is available to calculate beyond 2018.
Request No. UM 1633-OPUC-DR 29:
Please provide the forecasted prepaid pension asset balance at year end annually from 2013 through the end of the company's pension plan. Please identify and explain all assumptions used.

Response: 12/13/2013

The forecasted prepaid pension asset balance at year end annually from 2013 through 2021 is provided in CUB DR 5 Attachment-1 row B. These balances were calculated assuming the 12/31/2013 discount rate of 3.87% increases over time up to 6%. It also assumes that the expected long-term rate of return on plan assets stays at 7.5%. This forecast takes into account, legislation from MAP-21 and the goal of funding the plan to 80%.

To date, our actuaries have not forecasted past 2021. The last payment to the last retiree could be many decades in the future and it would not be possible, with any reasonable accuracy, to forecast the prepaid pension balance through the end of the plan. Additionally, NW Natural could exit the plan at any point in time in which case the Company would be required by accounting rules (unless there was regulatory intervention) to take a one-time charge for the balance of the prepaid asset.
OPUC Data Request 34

Please provide the forecasted prepaid pension asset balance at year end annually from 2013 through the end of the company's pension plan. Please identify and explain all assumptions used.

Response to OPUC Data Request 34

PacifiCorp objects to this request as unduly burdensome, vague, and ambiguous. Without waiving these objections, the Company responds as follows:

It is not known when the Company’s pension plan will end. Please refer to Confidential Attachment OPUC 34 for the Company’s most recently available forecast prepaid pension asset values from 2013 to 2023.

The confidential attachment is designated as confidential under Order No. 13-013 and may only be disclosed to qualified persons as defined in that order.
NW Natural

Rates & Regulatory Affairs

UM 1633 – Investigation into
Treatment of Pension Costs in Utility Rates

Data Request Response

Request No. UM 1633-CUB-DR 11:
Prior to 1987 what was the basis for including pensions in rates?

Response:

The Company adopted FAS 87 for accounting purposes in 1986. Companies were required to adopt the standard by 1987 for accounting; however, early adoption was permitted and even encouraged in the accounting standard’s language.

In following the accounting treatment, the Company also adopted the use of FAS 87 expense for ratemaking purposes in its 1986 rate case (UG 38).

Prior to 1986, the Company recognized contributions as a cost in the year they occurred. It is unclear how pensions were included in rates prior to the Company’s 1986 rate case, UG 38, as these records are not available; however, if the ratemaking treatment followed the accounting treatment, the Company would have recognized a test year expense in the amount of any contributions made.

The prepaid pension asset that the Company is requesting a return on does not result from contributions made prior to 1986.
OPUC Data Request 26

Please provide in Excel format with cell formulae intact the calculation of the Company’s actual annual Oregon-allocated FAS 87 expense from the present back through the inception of FAS 87.

Response to OPUC Data Request 26

Please refer to Attachment OPUC 26 (tab “OPUC 26”). Please note that the Company has only provided information since 1998 because actuarial reports before 1998 are not readily available. This timing also aligns with the change in the Company’s method of recovering pension expenses in rates. In 1998, the Company changed from recovery based on cash contributions to recovery based on FAS 87 pension expense.

Oregon-allocated amounts are based upon the System Overhead (SO) allocation factor. Because some general rate cases were resolved through “black box” settlements during this time period, the resulting amounts are estimates of the amounts in Oregon customer rates.
Rates & Regulatory Affairs

UM 1633 – Investigation into
Treatment of Pension Costs in Utility Rates

Data Request Response

Request No.UM 1633-CUB-DR 11:
Prior to 1987 what was the basis for including pensions in rates?

Response:

The Company adopted FAS 87 for accounting purposes in 1986. Companies were required to adopt the standard by 1987 for accounting; however, early adoption was permitted and even encouraged in the accounting standard’s language.

In following the accounting treatment, the Company also adopted the use of FAS 87 expense for ratemaking purposes in its 1986 rate case (UG 38).

Prior to 1986, the Company recognized contributions as a cost in the year they occurred. It is unclear how pensions were included in rates prior to the Company’s 1986 rate case, UG 38, as these records are not available; however, if the ratemaking treatment followed the accounting treatment, the Company would have recognized a test year expense in the amount of any contributions made.

The prepaid pension asset that the Company is requesting a return on does not result from contributions made prior to 1986.
CUB Data Request 13

In what docket did the Company change from previous pension calculation method to the FAS 87 method?

Response to CUB Data Request 13

In Oregon Docket UE 111, which was based on the calendar year 1998 test period, the Company changed from basing the pension amounts included in rates on cash contributions to the pension plans to the FAS 87 method.
July 29, 2013

TO: Catriona McCracken
Citizens’ Utility Board of Oregon (CUB)

Jaime McGovern
Citizens’ Utility Board of Oregon (CUB)

FROM: Patrick G. Hager
Manager, Regulatory Affairs

PORTLAND GENERAL ELECTRIC
UM 1633
PGE Response to CUB Data Request No. 013
Dated July 16, 2013

Request:

In what docket did the Company change from previous pension calculation method to the FAS 87 method?

Response:

Please refer to Attachment 010-A of PGE’s Response to CUB Data Request No. 010. For the purposes of ratemaking, the change occurred in UE 79 (test year 1991).
Request No. 13

Date prepared: September 16, 2013
Preparer: Michael Parvinen
Contact: Michael Parvinen
Telephone: 509-734-4593

A13. In what docket did the Company change from previous pension calculation method to the FAS 87 method?

Response:
UG 86
CUB’S DATA REQUEST NO. 13:

In what docket did the Company change from previous pension calculation method to the FAS 87 method?

IDAHO POWER COMPANY’S RESPONSE TO CUB’S DATA REQUEST NO. 13:

The Company began including pension expense under the SFAS 87 methodology in Docket No. UE-92.
AVISTA CORP.
RESPONSE TO REQUEST FOR INFORMATION

JURISDICTION: Oregon
CASE NO: UM 1633
REQUESTER: CUB Staff
TYPE: Data Request
REQUEST NO.: CUB – 013

DATE PREPARED: 07/26/2013
WITNESS:
RESPONDER: Ryan Krasselt / Liz Andrews
TELEPHONE: (509) 495-2273 / 495-8601
EMAIL: ryan.krasselt@avistacorp.com
liz.andrews@avistacorp.com

REQUEST:

In what docket did the Company change from previous pension calculation method to the FAS 87 method?

RESPONSE:

Not applicable. See CUB_DR_002 (a-c).
REQUEST:
With regard to pensions contributions over the past 15 years:

a. For each year, what amount was recovered in rates through FAS 87 or any other Commission-approved mechanism?

b. Please identify which years reflect rate case test years. For non-rate case test years, what is the basis for determining the amount that was recovered in rates?

c. For each year, what was the ratepayer funded FAS 87 expense?

d. For each year, what expense did the Company incur in excess of FAS 87?

e. For each year, what was the Company’s pension obligation as dictated by federal or state law, including but not limited to, the Pension Protection Act (PPA) and ERISA? Please provide a comprehensive list of any and all federal or state sources of law that the Company relied upon in determining its pension obligation each year.

f. For each year, what dollar amount did the Company contribute to its pension fund?

g. What, if any, deferrals, balancing accounts or other mechanisms did the Company apply to use?

h. For each year, what, if any, deferrals, balancing accounts or other mechanisms did the Company actually utilize?

i. For each year, what were the projected returns on plan assets?

j. For each year, what were the actual returns on plan assets?

k. For each year, was the pension fund over-funded or under-funded with regard to legal funding requirements?
   i. If under-funded, by how much?
   ii. If over-funded, by how much?

l. For each year, did the Company make contributions in excess of what was required by law, including but not limited to the PPA and ERISA?
   i. If yes, please answer the following:
      1. When were the excess contributions made?
      2. What was the justification for making the excess contributions?
      3. How much did the Company contribute in excess of legally required amounts?
      4. Were there tax benefits associated with any contributions made in excess of what was required by law? By year, what was the amount of tax benefits? Were the tax benefits passed through to customers?

m. For each year, what were the Company’s earnings based on Results of Operations (ROO) on both a normalized and un-adjusted basis?

n. For each year, if the Company did not contribute to its pension fund, what was the basis for the decision not to contribute?

o. For each year, what, if any, tax benefits were associated with each year’s pension contributions and expenses?

p. For each year, what organization managed the Company’s pension fund investments?
q. For each year, what policies and controls were in place to restrict investment decisions that affect affiliates?

r. For each year, were there any of the following that were part of the pension plans:
   i. Non-utility employees?
   ii. Affiliate employees?
   iii. Un-regulated activity employees?
   iv. If yes to any of the above, how have FAS 87 contributions and contributions in excess of FAS 87 taken into account any and all of the types of employees listed above? What mechanisms are in place to ensure that ratepayers are only paying their regulated share of such contributions?

s. For each year, was the pension plan open to executive and management level employees?
   i. If yes, were salary and bonuses not paid by customers used to calculate the appropriate level of pension contribution for each executive and management employee?

RESPONSE:

Please see the Company’s response in CUB DR 002C for the requested information. CUB DR 002C is CONFIDENTIAL SUBJECT TO GENERAL PROTECTIVE ORDER 13-013.

a.-c. (Note: Although the request asked for 15 years only, in response to part a-c, the Company is providing data available from the time the Oregon properties were acquired.)

Please see CUB_DR_002 Attachment A for FASB 87 expense estimated to have been recovered in Oregon customer rates since Avista’s ownership of the Oregon natural gas properties in 1991. Attachment A shows at column (u) row 16, that Avista estimates it has recovered from its Oregon customers $4.2 million over the period 1992 through 2012, compared to Oregon’s share of FASB 87 expense recorded on Avista’s books and records of $5.5 million (column (u) row 17), and contributions of $7.4 million (column (u) row 18).

The Company’s Oregon properties were acquired in 1991 from a company known at that time as CP National. Effective with its official date of operation in 1991, the Company (then Water Power Natural Gas or WPNG) was authorized to implement a general rate reduction of 0.5%. A four and one half-year rate freeze period followed until a second general rate reduction of 2.94% was implemented effective December 1, 1995. In 1997 (pursuant to Order No. 97-395) the Company implemented another general rate reduction of 2.1% on December 1, 1997 based on 12 months ended February 1997 test period data. Since that time, the Company has had 3 base rate increases, based on general rate case filings utilizing specific test periods, with the Oregon PUC effective: December 1, 2003; April 1, 2008; November 1, 2009; and March 15, 2011.

For purposes of determining pension expense (based on FASB 87 expense) passed through to Oregon customers, several assumptions were made as follows:

- FASB 87 expense was included in Oregon retail rates starting in December 1997. Prior to December 1997, the FASB 87 expense recorded on Avista’s books and records were immaterial, the Company had not filed a general rate case prior to that time, and as noted above, had implemented two rate reductions. In 1997, while the Company had not filed a general rate case, a rate reduction was implemented based off of the Company’s 12-months ended February 1997 normalized earnings (test period) from its Oregon
properties. Included in the test period was FASB 87 expense of approximately $2.4 million (system). Therefore, from the period December 1997 through November 2003 (December 1, 2003 was the effective date of Avista’s first general rate case increase), a portion related to Oregon’s share of the $2.4 million (see CUB_DR_002 Attachment A, column (e), row 4) was assumed to be included in Oregon retail rates.

- Starting in December 2003 forward, an annual estimated amount was included based on the prorated share effective with the December 2003, April 2008, November 2009 and March 2011 general rate case increases. Please see CUB_DR_002 Attachment A for the annual system FASB 87 expense amount (Row 4) and the amount assumed recovered from customers based on the timing of Oregon rate case activity (Row 9-system and Row 10-Oregon allocated).

- In determining Oregon customer’s specific share of the system FASB 87 expense since 1997, while the allocations may have varied slightly on an annual basis, the Company allocated the System FASB 87 cost as follows:
  o 96% allocated to Utility (4% allocated to non-utility)
  o 60% recorded to O&M expense
  o 5% is allocated to Oregon (based on Oregon’s share of total labor expensed).
  (Example: Oregon Customers’ share of $2.4 million system = $2.4 x 96% Utility x 60% O&M x 5% Oregon share = $69,120 annually.)

For data request parts d. - f., i. – l. and o., please see CUB_DR_002C Confidential Attachment A providing Avista’s Retirement Plan Summary 1998-2012 (System).

Additional comments follow:

e. Pension obligations for the Defined Benefit (Pension) Plan were determined according to ERISA federal regulations and the Internal Revenue Code. These pension requirements were significantly changed starting in 2008 by the Pension Protection Act of 2006. The results for 2012 reflect the Moving Ahead for Progress in the 21st Century Act (MAP-21).

g. & h. The Company has not applied the use of deferrals, balancing accounts or other mechanisms related to the pension plan in its OR jurisdiction.

i. The Company made additional contributions, as compared to the minimum required by law, due to the fact that the Company’s credit facility includes a covenant that requires the Defined Benefit (Pension) Plan funded status to be 80% or greater as compared to the funding target (as defined in Code Section 430(d)(1)) on an annual basis.

In 2012, the Moving Ahead for Progress in the 21st Century (MAP-21) Federal legislation was approved that changed how the discount rate was calculated for funding purposes. The change in law required the discount rate (for the target liability) to be calculated over a 25 year average vs the previously required 2 year average. This significantly increased the discount rate resulting in a lower target liability, and the funded status for our plan increased from 80% to 102%. The discount rate and our funding status will continue to change based upon the legislation that was enacted.

m. Please see CUB_DR_002C Confidential Attachment B for the Company’s Oregon earnings based on Oregon Results of Operations (ROO) on both a normalized and actual basis for the period 1998 to 2012.
n. For the period 1998 to 2012 the Company did not contribute in 1998, 1999 and 2001 as the plan was adequately funded based on the law and regulations in effect at the time.

p. The following entities were engaged by Avista as the Pension Plan investment consultant:
   2006 - Current: Wurts & Associates
   2000 - 2005: Russell Investment Group

q. The Company has not invested pension assets in affiliates and has no plans to do so.

r. (i. – iv.) The pension cost directly associated with the non-utility employees is allocated to the respective non-utility entity. Each non-utility entity reimburses the utility for their respective share of the allocated pension cost.

s. Yes, the pension plan is administered according to the Plan, qualified by the IRS, which designates eligible employees. If the executive and management employees meet the Plan Membership and service requirements then they are eligible to accrue a benefit under the Plan.

The pension plan only recognizes base compensation up to the IRS qualified plan compensation limits in accordance with Code Section 401(a)(17) and excluding any bonuses, overtime pay or contributions to nonqualified deferred compensation plans.
AVISTA CORP.
RESPONSE TO REQUEST FOR INFORMATION

JURISDICTION: Oregon
CASE NO: UM 1633
REQUESTER: OPUC Staff
TYPE: Data Request
REQUEST NO.: Staff - 30

DATE PREPARED: 12/11/2013
WITNESS:
RESPONDER: Liz Andrews
DEPT: State & Federal Regulation
TELEPHONE: (509) 495-8601
EMAIL: liz.andrews@avistacorp.com

REQUEST:

Does the Company believe the prepaid pension asset is a “regulatory asset?”

RESPONSE:

An integral part of the Company’s request in this Docket is for the Commission to determine that the prepaid pension asset is a “regulatory asset” that should be treated as a rate base item for rate making purposes, earning a return to compensate the Utility for its cost to fund its pension plan.
Request No. 32

Date prepared: December 16, 2013
Preparer: Michael Parvinen
Contact: Michael Parvinen
Telephone: 509-734-4593

A32. Please explain why the Company has or has not filed with the Commission an application for an accounting order designating the prepaid pension asset as a “regulatory asset.”

Response:

The current docket is essentially that filing for Cascade. Cascade was slower than other utilities in identifying that rate payers were actually not paying for the full cost of the pension program.
NW Natural

Rates & Regulatory Affairs

UM 1633 – Investigation into
Treatment of Pension Costs in Utility Rates

Data Request Response

**Request No.** UM 1633-OPUC-DR 31:
Please explain why the Company has or has not filed with the Commission an application for an accounting order designating the prepaid pension asset as a “regulatory asset.”

**Response:** 12/13/2013

Please refer to the Company’s response to OPUC DR 30 regarding classifying the prepaid pension asset as a regulatory asset. The Company did seek an accounting order to classify the AOCI (unrecognized gains/losses) as a regulatory asset. This occurred when new accounting rules would have required AOCI to be charged as a reduction to equity. The OPUC issued Order No. 07-030 allowing the amount to be included in regulatory assets.

The remaining portion of the prepaid pension asset (pension obligation less plan assets) is included in the Company’s liabilities.

The Company also notes that it does not normally, and would not expect to be required to seek an order designating items as prepaid assets where they represent an investment made by the Company that is expensed over time. For example, the Company does not seek authority to enter a regulatory asset when it invests money in a physical plant item. However, the Company is normally allowed to add such items to rate base, and recover its carrying costs associated with that investment.
ORDER NO. 07-051
ENTERED 02/12/07

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1292

In the Matter of
PORTLAND GENERAL ELECTRIC 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:

[Signature]
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

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
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 $34 million. Instead, pursuant to the issuance of SFAS 158, PGE expects to record a pension asset of $8 million based on the latest actuarial assessment. The difference of $26 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 affect 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.
ORDER NO. 07-051

PGE Docket UM 1292 – Pension Accounting
January 17, 2007
Page 3

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.

PGE UM 1292 – Pension Accounting
December 13, 2013

TO: Kay Barnes
Oregon Public Utility Commission
puc.datarequests@state.or.us

FROM: Patrick Hager
Manager, Regulatory Affairs

PORTLAND GENERAL ELECTRIC
UM 1633
PGE Response to OPUC Data Request No. 031
Dated November 29, 2013

Request:

Please explain why the Company has or has not filed with the Commission an application for an accounting order designating the prepaid pension asset as a "regulatory asset."

Response:

Prior to 2007, the funded status of PGE’s pension plan was recorded on the balance sheet based on PGE’s Accumulated Benefit Obligation (ABO). The Projected Benefit Obligation (PBO) was only required to be provided as a footnote. The ABO is estimated based on the assumption that the pension plan is to be terminated immediately and does not account for future service cost. The PBO assumes that the pension plan is ongoing, and thus accounts for future service cost.

Beginning in 2007, pursuant to SFAS 158 (Employer’s Accounting for Defined Benefit Pensions and Other Postretirement Plans), companies were required to recognize the PBO on their balance sheets. For PGE the difference between the ABO and PBO represented approximately $74 million. As a result of this, PGE filed an application and received approval for an accounting order related to PGE’s pension liability (Commission Order No. 07-051). PGE’s prepaid pension asset is associated with this liability.

Absent the approval of Commission Order No. 07-051 creating a regulatory asset, Generally Accepted Accounting Principles would have required that the above amount be treated as equity, reducing PGE’s common equity capitalization. See Attachment 031-A for a copy of Commission Order No. 07-051.
BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UM 1293

In the Matter of)

NORTHWEST NATURAL GAS COMPANY,)
dba NW NATURAL)
ORDER
Application for an Accounting Order)
Regarding Treatment of Accumulated Other)
Comprehensive Income for Funded Status of)
Pension and Other Postretirement Benefit)
Obligations.)

DISPOSITION: APPLICATION APPROVED

On December 22, 2006, Northwest Natural Gas Company (NW Natural) filed an application for an accounting order that would authorize the company to record on an ongoing basis, as a regulatory asset or liability, an amount equal to the after-tax charge or credit to common equity that would otherwise be necessitated by the recognition of a balance sheet adjustment to the company’s Accumulated Other Comprehensive Income pursuant to new accounting pronouncement FAS 158 “Employers’ Accounting for Defined Benefit Pensions and Other Postretirement Plans”. The application was filed pursuant to ORS 757.120 and ORS 757.125. A description of the requirements is detailed in Staff’s Report, attached as Appendix A, and incorporated by reference.

At its Public Meeting on January 23, 2007, the Commission adopted Staff’s recommendation for an accounting order authorizing the company to record and maintain, as a regulatory asset or liability, the company’s Accumulated Other Comprehensive Income pursuant to new accounting requirements under FAS 158.

ORDER

IT IS ORDERED that:

1) Northwest Natural Gas Company’s application requesting an accounting order authorizing the company to record and maintain, as a regulatory asset or liability, the company’s Accumulated Other Comprehensive Income, pursuant to new accounting requirements under FAS 158, is approved.
2) This approval is for accounting purposes only, and does not constitute authorization of any future ratemaking treatment of the costs associated with the regulatory asset.

Made, entered and effective JAN 29 2007

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 by filing a petition for review with the Court of Appeals in compliance with ORS 183.480-183.484.
ORDER NO. 07-030

ITEM NO. CA2

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: January 23, 2007

REGULAR ___ CONSENT X EFFECTIVE DATE December 22, 2006

DATE: January 17, 2007

TO: Public Utility Commission

FROM: Ed Durrenberger

THROUGH: Lee Sparling, Ed Busch and Judy Johnson

SUBJECT: NORTHWEST NATURAL (Docket No. UM 1293) Application for an Accounting Order Regarding Treatment of Accumulated Other Comprehensive Income for Funded Status of Pension and Other Postretirement Benefit Obligations.

STAFF RECOMMENDATION:

I recommend that the Commission approve Northwest Natural’s (NW Natural or company) application for an accounting order authorizing the company to record and maintain, as a regulatory asset or liability, the company’s Accumulated Other Comprehensive Income (AOCI) pursuant to new accounting requirements under Statement of Financial Accounting Standards (FAS) No. 158. 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 22, 2006, NW Natural filed an application for an accounting order that would authorize the company to record on an ongoing basis, as a regulatory asset or liability, an amount equal to the after-tax charge or credit to common equity that would otherwise be necessitated by the recognition of a balance sheet adjustment to the company’s AOCI pursuant to new accounting pronouncement FAS 158 “Employers’ Accounting for Defined Benefit Pensions and Other Postretirement Plans”. This application was filed pursuant to ORS 757.120 and 757.125.

The Financial Accounting Standards Board (FASB) issued FAS 158 on September 29, 2006, with the intent of improving financial reporting with respect to the overfunded or underfunded status of defined benefit postretirement plans. The new FAS 158 financial
standard changes FAS 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. The PBO, as the name says, is based on projected future compensation levels whereas the ABO is based on current and past compensation levels. The PBO is a larger value than the ABO and FAS 158 requires the company to recognize, as a component of shareholder’s equity, the amount by which the PBO is greater than the fair value of the post retirement plan assets that are currently recorded as an accrued liability and additionally, that it cannot be reduced by recognizing any Prepaid Asset.

NW Natural estimates that, as of December 31, 2006, the PBO will be greater than the fair value of the plan assets by $56 million. Adjusting for the Prepaid Asset, the aggregate difference between the PBO and the net Prepaid Asset is $70 million. This represents an after tax charge to AOCl in equity of approximately $42 million and a deferred income tax asset of $28 million.

The following factors have contributed to NW Natural’s current underfunded pension status: 1) the company adopted new mortality rates in 2005 to reflect longer life expectancies; and, 2) the present value of future benefit obligations to employees have increased as interest rates have declined.

If the company is not allowed to create and maintain a Regulatory Asset as required by FAS 158, NW Natural will be obligated to record, for its fiscal year ending December 31, 2006, a $42 million after-tax charge to AOCl ($70 million aggregate difference less $28 million in deferred income taxes). Although this net charge to equity is expected to be adjusted in future periods, the 2006 charge would have the immediate effect of reducing the common equity ratio and, according to the company, negatively impact the credit rating and possibly increase its cost of capital.

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

NW Natural also requests confirmation by the Commission that actuarially determined FAS 87 and FAS 106 benefit costs are presently recoverable in rates. Staff agrees that actuarially determined FAS 87 and FAS 106 pension costs are generally recoverable in rates and that this has been the case in past rate cases, but does not agree that the Commission should confirm that this forms the basis for recovery of these costs in rates. Such a ruling should be reserved for a general rate proceeding.

Staff and NW Natural both acknowledge that there should be no rate change, now or in the future, associated with the requested regulatory asset.
PROPOSED COMMISSION MOTION:

Northwest Natural's application for an accounting order, authorizing the company to record and maintain, as a regulatory asset or liability the company's Accumulated Other Comprehensive Income pursuant to new accounting requirements under FAS 158, be approved. This approval is for accounting purposes only and does not constitute authorization of any future ratemaking treatment of the costs associated with the regulatory assets.

NWN UM 1293
OPUC Data Request 35

Does the Company believe the prepaid pension asset is a “regulatory asset?”

Response to OPUC Data Request 35

While PacifiCorp believes the prepaid pension asset is not a “regulatory asset” in the traditional definition (i.e., where an incurred cost that would otherwise have been recorded as expense is deferred as a regulatory asset under generally accepted accounting principles), a component of the prepaid pension asset is reflected in regulatory assets because the prepaid pension asset is the sum of the underfunded status of the PacifiCorp Retirement Plan (recorded as a liability) and the associated unrecognized gains and losses (recorded as a regulatory asset). Absent regulatory recovery of the Company’s FAS 87 expense, the unrecognized gains and losses would be reflected in accumulated other comprehensive income rather than a regulatory asset.
Request No. 37

Date prepared: December 16, 2013
Preparer: Michael Parvinen
Contact: Michael Parvinen
Telephone: 509-734-4593

A37. Please indicate what, if any, amount of the Company’s annual year-end prepaid pension asset since its inception through 2012 is due to achieving returns on the pension asset higher than forecasted. Please identify and explain all assumptions used, keep all formula and calculations intact, and include a narrative description of how the amount is calculated.

Response:

Cascade is unable to quantify as there are too many variables to measure impact.
AVISTA CORP.  
RESPONSE TO REQUEST FOR INFORMATION

JURISDICTION: Oregon  
CASE NO: UM 1633  
REQUESTER: OPUC Staff  
TYPE: Data Request  
REQUEST NO.: Staff - 36  
DATE PREPARED: 12/11/2013  
WITNESS:  
RESPONDER: Ryan Krasselt  
DEPT: Finance  
TELEPHONE: (509) 495-2273  
EMAIL: ryan.krasselt@avistacorp.com

REQUEST:

Please indicate what, if any, amount of the Company’s annual year-end prepaid pension asset since its inception through 2012 is due to achieving returns on the pension asset higher than forecasted. Please identify and explain all assumptions used, keep all formula and calculations intact, and include a narrative description of how the amount is calculated.

RESPONSE:

The Company does not have the level of detail necessary to calculate the portion of the asset balance that is a result of differences in market returns. In addition, there are too many variables which impact the pension asset balance, FAS 87 expense, the Company’s level of contributions, etc., to measure this single impact. For example, as achieved returns exceed expectations, both the contribution and the FAS 87 expense go down but a whole host of other variables play into the calculations that prevent an actual determination of the resulting relationship.
Rates & Regulatory Affairs

UM 1633 – Investigation into Treatment of Pension Costs in Utility Rates

Data Request Response

**Request No.** UM 1633-OPUC-DR 36: Please indicate what, if any, amount of the Company’s annual year-end prepaid pension asset since its inception through 2012 is due to achieving returns on the pension asset higher than forecasted. Please identify and explain all assumptions used, keep all formula and calculations intact, and include a narrative description of how the amount is calculated.

**Response:** 12/13/2013

The Company does not have the information available to calculate Staff’s request. While yearly actual and expected returns are data points in the actuarial reports, the running balance of cumulative unrecognized gains and losses specific to differences in actual and expected market returns is not obtainable.

Accounting rules require that total unrecognized gains and losses outside of a prescribed corridor be amortized in FAS 87 expense. The cumulative unrecognized differences in market returns and other actuarial assumptions that give rise to unrecognized gains and losses are not individually tracked. Therefore, the Company is not able to calculate the portion of the prepaid pension asset balance arising from the total difference between expected and actual market returns.

Conceptually, if in any given year actual market returns were greater than the expected long-term rate of return, the resulting gain would be deferred and would increase the prepaid pension asset. As it is amortized, it would reduce both the prepaid pension asset and FAS 87 expense. Conversely, if the market underperformed compared to the expected long-term rate, the resulting loss would be deferred and would decrease the prepaid pension asset. Over time, the amortization of the loss would increase both the prepaid pension asset and FAS 87 expense.
NW Natural

Rates & Regulatory Affairs

UM 1633 – Investigation into Treatment of Pension Costs in Utility Rates

Data Request Response

Request No.  UM 1633-OPUC-DR 27:
Please provide the calculation of the annual deferred tax benefit associated with the prepaid pension asset since inception through 2012. Please identify and explain all assumptions used.

Response:  12/13/2013

Please refer to UM 1633 OPUC DR 27 Attachment-1. The Company has the deferred tax balance as of 1996 on the prepaid pension asset, but does not have available the annual apportionment of deferred taxes for the years prior to 1996.

The Company assumes a 90% Oregon allocation of the deferred taxes on the prepaid pension asset which approximates the allocated portion of the prepaid pension asset. The total deferred tax balance is measured using the current effective tax rate.
December 13, 2013

TO: Kay Barnes
Oregon Public Utility Commission

FROM: Patrick Hager
Manager, Regulatory Affairs

PORTLAND GENERAL ELECTRIC
UM 1633
PGE Response to OPUC Data Request No. 027
Dated November 29, 2013

Request:

Please provide the calculation of the annual deferred tax benefit associated with the prepaid pension asset since inception through 2012. Please identify and explain all assumptions used.

Response:

PGE objects to the request on the basis that it is unduly burdensome. Notwithstanding this objection, PGE respond as follows:

The deferred tax benefit associated with the prepaid pension asset for the years of 2002-2012 was previously provided as Attachment 023-A to PGE’s Response to OPUC Data Request No. 023. Data prior to 2002 that accurately separates the prepaid pension asset related portion of the accumulated deferred tax benefit does not exist in PGE’s system. At a fundamental level, any deferred tax asset or liability for a given year can be calculated by the difference between the total deferred tax assets and deferred tax liabilities recorded for that year. Attachment 027-A provides an example of this for 2011.
December 13, 2013

TO: Kay Barnes
Oregon Public Utility Commission
puc.datarequests@state.or.us

FROM: Patrick Hager
Manager, Regulatory Affairs

PORTLAND GENERAL ELECTRIC
UM 1633
PGE Response to OPUC Data Request No. 036
Dated November 29, 2013

Request:

Please indicate what, if any, amount of the Company’s annual year-end prepaid pension asset since its inception through 2012 is due to achieving returns on the pension asset higher than forecasted. Please identify and explain all assumptions used, keep all formula and calculations intact, and include a narrative description of how the amount is calculated.

Response:

PGE objects to this request on the basis that it is unduly burdensome and requests a study that PGE has not performed. Notwithstanding this objection, PGE responds as follows:

The buildup of the prepaid asset is a complicated, iterative process that includes the interplay of many factors, including differences between actuarial estimates and actual plan experience that arise due to participant mortality, plan demographics, financial markets and changes in IRS statutes.

Investment performance in excess or short of the relevant benchmarks impacts the prepaid asset via net periodic pension cost through the expected return on asset mechanism, the accumulated other comprehensive loss mechanism, and the impacts on IRS-mandated plan funding.

Isolating the impact of the expected returns versus actual returns would not be possible without a complete reconstruction of pension experience since 1987.
OPUC Data Request 41

Please indicate what, if any, amount of the Company’s annual year-end prepaid pension asset since its inception through 2012 is due to achieving returns on the pension asset higher than forecasted. Please identify and explain all assumptions used, keep all formula and calculations intact, and include a narrative description of how the amount is calculated.

Response to OPUC Data Request 41

The Company objects to this request as unduly burdensome, not reasonably calculated to lead to the discovery of admissible evidence, and not commensurate with the needs of the case. Without waiving these objections, PacifiCorp responds as follows:

Assessing the exact impact of higher-than-expected asset returns (“excess asset returns”) on the prepaid pension asset would require a detailed analysis and the assistance of an actuary. Additionally, the information available to perform such a calculation taking into account all of these complexities back to the inception of a prepaid pension asset is not readily available.

Excess asset returns generally affect the prepaid pension asset in the following ways:

1) The excess asset returns would be included in the amount of net actuarial gain/loss that is amortized into FAS 87 expense using the corridor approach. The Company’s response to Staff Data Request 26 provided the historical amount of actuarial gain/loss that was amortized into FAS 87 expense from 1998 to 2012.

2) For purposes of calculating the expected return on plan assets component of FAS 87 expense, the excess asset returns are smoothed in over a five-year period. In other words, the base amount of plan assets (referred to as the market-related value of plan assets) on which the expected return is calculated would increase over the five years following the year in which the higher-than-expected returns occurred. Additional complexity in calculating the impacts also occurs because of compounding returns.

3) The excess asset returns would reduce the ERISA minimum required contributions in future years. For example, assuming a company contributes the minimum amount required by ERISA, while this would reduce the prepaid pension asset, this would be partially offset in future years due to lower plan assets and therefore lower plan asset returns, which increases expense and increases contributions in future years.
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<td>MCDOWELL RACKNER &amp; GIBSON PC</td>
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<td>LISA F RACKNER (C) (W)</td>
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<td><strong>PACIFIC POWER</strong></td>
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