PACIFIC POWER
A DIVISION OF PACIFICORP

825 NE Multnomah, Suite 2000
Portland, Oregon 97232

December 24, 2018

VIA ELECTRONIC FILING

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

Attn: Filing Center

RE: UM____—Application for Approval of Deferred Accounting and Accounting Order Related to Non-Contributory Defined Benefit Pension Plans

PacifiCorp d/b/a Pacific Power submits for filing its Application for Approval of Deferred Accounting and Accounting Order Related to Non-Contributory Defined Benefit Pension Plans.

Please direct any questions regarding this filing to Natasha Siores, Manager, Regulatory Affairs, at (503) 813-6583.

Sincerely,

Etta Lockey
Vice President, Regulation

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UM _____

In the Matter of PACIFICORP d/b/a PACIFIC POWER Application for Approval of Deferred Accounting and Accounting Order Related to Non-Contributory Defined Benefit Pension Plans.	**APPLICATION FOR DEFERRED ACCOUNTING AND ACCOUNTING ORDER**

I. INTRODUCTION

PacifiCorp d/b/a Pacific Power submits this application to the Public Utility Commission of Oregon (Commission) for an order: (1) authorizing PacifiCorp to defer the expected impacts associated with the occurrence of a pension event in 2018, and any subsequent similar pension events, in accordance with Oregon Revised Statutes (ORS) 757.259(2)(e) and Oregon Administrative Rules (OAR) 860-027-0300;[1] and (2) authorizing PacifiCorp, in accordance with ORS 757.120 and ORS 757.125, to amortize the impact of pension events (*i.e.*, the increase or reduction in regulatory assets or liabilities) to expense over the same period that is used to amortize the underlying regulatory assets or liabilities with the opportunity to recover the amount in rates as part of net periodic benefit cost. Together, these requests allow the company to account for the impact of pension events, such as settlements and curtailments, through deferral and amortization in a manner that closely approximates the amortization that would have continued if it were not for the accelerated recognition required by standard accounting principles due to occurrence of a pension event.

[1] In accordance with OAR 860-027-0300, PacifiCorp will file for reauthorization of the deferral, as necessary.

For financial reporting on its employer-sponsored retirement plans, referred to as non-contributory defined benefit pension plans, PacifiCorp typically records certain pension-related costs and credits as a regulatory asset or liability and amortizes the balance over the actuarial remaining life expectancy of pension plan participants. This allows for smooth recognition of the unrecognized costs each year through consistent amortization expense.

If certain pension events occur, however, Accounting Standards Codification (ASC) 715-30, which is the Financial Accounting Standards Board accounting standard governing defined benefit pension plans, requires PacifiCorp to recognize portions of these otherwise amortizable costs in earnings in that year rather than continuing to record such costs as a regulatory asset or liability for amortization over a period of years. One of these pension events will occur in 2018, triggering a requirement for PacifiCorp to expense approximately $21 million in pension-related losses for the year, and this is likely to recur in future years as well, given the number of plan participants nearing retirement age and the current low interest rate environment. Absent a commission order, this will necessitate recording certain pension-related gains or losses in annual earnings in each such year, rather than amortizing these gains and losses over the expected life of plan participants.

The requested order to defer this expense and to amortize these and similar costs going forward as a regulatory asset or liability, notwithstanding the occurrence of certain pension events, will reduce interannual variability in pension costs for the remaining life of PacifiCorp's non-contributory defined benefit pension plans.

II. NOTICE

Communications regarding this application should be addressed to:

PacifiCorp Oregon Dockets
825 NE Multnomah Street, Suite 2000
Portland, OR 97232
oregondockets@pacificorp.com

Matthew D. McVee
Chief Regulatory Counsel
825 NE Multnomah Street, Suite 1800
Portland, OR 97232
matthew.mcvee@pacificorp.com

In addition, the PacifiCorp requests that all data requests regarding this application be sent to the following:

By email (preferred): datarequest@pacificorp.com

By regular mail: Data Request Response Center
PacifiCorp
825 NE Multnomah Street, Suite 2000
Portland, OR 97232

Informal questions may be directed to Natasha Siores, Manager, Regulatory Affairs at (503) 813-6583.

III. BACKGROUND

A. PacifiCorp's Pension Plans.

PacifiCorp pension plans include non-contributory defined benefit pension plans. PacifiCorp reduced the risk profile of these pension plans by closing the plans to all non-union employees hired after January 1, 2008, and freezing the accrual of benefits for non-union employees and union employees. PacifiCorp now provides most union and non-union employees with enhanced 401(k) plan benefits instead. Select non-union plan participants, however, did not elect to receive enhanced 401(k) plan benefits. Those employees continued to earn pension benefits based on a cash balance formula through December 31, 2016. For eligible non-union participants remaining in the pension plans, the basic benefit payable on or after termination is the balance of the participant's hypothetical cash balance as a lump sum or an actuarial equivalent life annuity.

B. Funded Status on the Balance Sheet.

Accounting Standards Codification (ASC) 715 (Retirement Benefits) requires recognition of the funded status of a defined benefit pension plan on the balance sheet on the measurement date (typically December 31). The funded status is the difference between the fair value of the plan assets and the benefit obligation. If the funded status is positive (*i.e.*, the fair value of the plan assets is greater than the obligation), then the company reports a non-current asset on its balance sheet. Conversely, if the funded status is negative (*i.e.*, the fair value of plan assets is less than the obligation), then the company reports a liability on its balance sheet; the liability can be a non-current and/or a current liability. As of PacifiCorp's most recent 10-K filed for the year ended December 31, 2017, PacifiCorp's pension plans had a funded status of negative $140 million—meaning the plan's obligations were greater than the fair value of the plan's assets. Table 1 below provides greater detail on the funded status of the plans for 2016 and 2017.

Table 1: Funded Status of PacifiCorp's Pension Plans

Pension Plans (in millions)	2017	2016
Plan Assets at Fair Value, end of year	$1,111	$999
Less -Benefit Obligation, end of year	$1,251	$1,276
Funded Status	**($140)**	**($277)**

C. Net Periodic Benefit Costs.

PacifiCorp's net periodic benefit costs are the pension costs reflected on the company's books and include the following components:

- **Service Cost**: The actuarial present value of benefits attributed by a plan's benefit formula to services rendered by employees during the period. In other words, the service cost is the value of the employee benefits attributed to current year service.

- **Interest Cost**: Periodic interest on the benefit obligation that represents the increase in the obligation due to the passage of time.

- **Expected Return on Plan Assets**: The expected return on the plan's assets for the year, which is calculated using an expected long-term rate of return on plan assets.

- **Amortization of Unrecognized Prior Service Cost**: The amortization of any balances previously recorded in accumulated other comprehensive income (AOCI) or regulatory asset/liability as a result of plan changes (discussed in greater detail below).

- **Amortization of Actuarial Gains/Losses**: The amortization of past actuarial gains and losses recorded in AOCI or regulatory asset/liability as a result of changes in actuarial assumptions such as the discount rate and the difference between actual and expected experience, such as the return on plan assets (discussed in greater detail below).

In Oregon, the company recovers its net periodic benefit costs in rates.[2]

D. Unrecognized Net Periodic Benefit Costs (Past Actuarial Gains and Losses).

Unrecognized net periodic benefit costs include an accumulation of past actuarial gains and losses that result from changes in actuarial assumptions such as the discount rate and the difference between expected and actual experience, such as returns on plan assets. Under ASC 715, the portion of the funded status not yet recognized in net periodic benefit cost must be included in AOCI. PacifiCorp, as a regulated entity, applies the provisions of ASC 980 (Regulated GAAP[3]) and therefore records as a regulatory asset or liability an amount that is otherwise charged/credited to AOCI if it is probable that the amount will be reflected in setting future rates.

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[2] *See In the Matter of the Pub. Util. Comm'n of Or., Investigation into Treatment of Pension Costs in Utility Rates,* Docket No. UM 1633, Order No. 15-226 at 4 (Aug. 3, 2015).
[3] Generally Accepted Accounting Principles.

As of December 31, 2017, the funded status of PacifiCorp's pension plans included unrecognized net periodic benefit costs of $438 million, of which $418 million was reflected as a regulatory asset. Table 2 below demonstrates how the unrecognized net periodic benefit cost changed during calendar year 2017.

Table 2: Unrecognized Net Periodic Benefit Cost

Pensions (in millions)	Regulatory Asset	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2016	$491	$20	$511
Net (gain) loss arising during the year	($60)	$1	($59)
Net Amortization	($13)	($1)	($14)
Total	($73)	-	($73)
Balance, December 31, 2017	**$418**	**$20**	**$438**

Under ASC 715, PacifiCorp amortizes the majority of this balance on its books over approximately 21 years, which represents the actuarial assumption of the remaining life expectancy of plan participants (remeasured annually). This allows for smooth recognition of the unrecognized costs each year through consistent amortization expense.

E. Pension Events That Impact Amortization of Unrecognized Costs

Under ASC 715, two primary pension events change the timing for recognizing previously unrecognized net periodic benefit costs in earnings, requiring immediate recognition to benefit costs rather than the longer term amortization to benefit costs—settlements and curtailments.

Settlements are irrevocable actions that relieve the employer of primary responsibility for a pension benefit obligation and eliminate significant risks related to the obligation and the assets used to affect the settlement. When PacifiCorp provides a plan participant with a lump sum cash distribution (consistent with plan provisions), the payout qualifies as a settlement. If the aggregate of all lump sum cash distributions in a calendar year exceed a defined threshold (service cost plus interest cost), ASC 715 requires that PacifiCorp recognize in earnings a pro rata portion of the unrecognized actuarial gains or losses recorded in AOCI or as a regulatory asset. The amount that is reclassified from AOCI or the regulatory asset when this occurs is not a new cost; it is merely an acceleration of the recognition of the cost in earnings (that is, amortization to expense over a period of years versus recognition as expense in a single year).

Curtailments result from a significant reduction in the expected years of future services of plan employees or the elimination for a significant number of employees the accrual of defined benefits for some or all of their future services. A curtailment typically results from amendments to benefit plan documents to eliminate the accrual of future plan benefits. In the event of a curtailment, ASC 715 requires that PacifiCorp recognize in earnings any previously existing prior service cost/credits within AOCI or a regulatory asset that relate to the affected participants that was expected to be amortized after the effective date of the plan change. PacifiCorp's recognition in earnings of the curtailment event occurs in a single year, whereas absent the curtailment, the amounts would continue to amortize.

When pension events have occurred in the past, PacifiCorp requested approval from the Commission to apply Regulated GAAP, which allowed the company to remove the items from recognition in earnings and instead create either a regulatory asset or liability.[4]

[4] *See, e.g., In the Matter of PacifiCorp Application for an Accounting Order Regarding Pension Curtailment,* Docket No. UM 1400, Order No. 08-598 (Dec. 24, 2008); *In the Matter of PacifiCorp Application for Approval of Deer Creek Mine Transaction,* Docket No. UM 1712, Order No. 15-161 (May 27, 2015).

F. Anticipated Pension Events and PacifiCorp Proposed Treatment.

Under ASC 715, the settlement accounting threshold for recognizing gains or losses in earnings is the sum of the service cost and interest cost components of net periodic benefit cost for the year. As noted above, to the extent all settlements (lump sum cash distributions to plan participants) exceed the threshold, a portion of previously unrecognized gains and losses must be recognized in earnings immediately. PacifiCorp's threshold for settlements has declined over the last few years due to low interest costs resulting from decreased discount rates and lower service cost due to freezing of the pension plans. A low interest rate environment that incentivizes retirees to elect lump sum cash distributions coupled with a low threshold results in a higher likelihood of future settlements. Changes in discount and interest rates may result in more years with total annual settlement amounts that exceed the threshold for recognition of gains and losses.

In accordance with Regulated GAAP, PacifiCorp currently records the actuarial gains and losses and prior service costs and credits as a regulatory asset or liability in lieu of recognizing the amounts in AOCI. These amounts are amortized over future periods based on specified amortization periods determined under the relevant Commission orders, or over the current ASC 715 period (approximately 21 years). Given the uncertainty and potential volatility in the timing and potential impact of pension events that are largely beyond PacifiCorp's control, the company proposes to maintain unrecognized net periodic benefit costs in a regulatory asset or liability account in all years in order to continue recovering those amounts through amortization (using the current ASC 715 period), rather than recognizing an immediate gain or loss in earnings in years when a triggering pension event occurs. PacifiCorp believes this would allow for recognition of relatively stable pension costs. The company's proposal here would have no immediate impact on customer rates.[5]

IV. DEFERRAL OF COSTS

PacifiCorp respectfully requests authorization under ORS 757.259(2)(e) to defer the impacts related to the occurrence of a pension event in 2018. PacifiCorp seeks authorization of this deferral for a 12-month period beginning the date of this Application. As required by OAR 860-027-0300(3), PacifiCorp provides the following:

A. Description of Utility Expense

PacifiCorp is requesting to defer the expected impacts associated with the pension event in 2018 that would otherwise trigger an immediate recognition of a pro rata portion of actuarial losses and gains. The company proposes to amortize this deferral over the same period that is used to amortize the underlying regulatory assets or liabilities with the opportunity to recover the amount in rates as part of net periodic benefit cost. The company's request is consistent with amortization of actuarial losses and gains in years in which no triggering pension event occurs.

B. Reasons for Deferral

As discussed above, PacifiCorp requests deferral of the expected impacts associated with the pension event in 2018 that would otherwise trigger an immediate recognition of a pro rata portion of actuarial losses and gains. In accordance with ORS 757.259(2)(e), PacifiCorp seeks to match the costs borne and benefits received by customers and minimize the frequency of rate changes by way of the deferred accounting sought in this application.

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[5] Similarly, the company's request here does not relate to or impact the ratemaking treatment of the company's prepaid pension asset and is consistent with the Commission's treatment of the prepaid pension asset announced in Order No. 15-226. Docket No. UM 1633, Order No. 15-226 at 8 (Aug. 3, 2015).

PacifiCorp's request here is consistent with the Commission's previous approval of comparable accounting treatment for similar pension events. In Order No. 08-598, the Commission approved PacifiCorp's application for an accounting order authorizing the company to record a net reduction to the regulatory asset associated with its existing pension and other post-retirement welfare assets as a result of a pension curtailment gain and a measurement date change transitional adjustment.[6] In that case, employee participation in PacifiCorp's defined benefit pension plans declined substantially, when union employees and approximately 41 percent of non-union employees migrated to 401(k) retirement plans. The shift from pensions to 401(k) plans required the company to record a substantial curtailment gain of $41 million.[7] Curtailments are one of the triggering pension events described above that, under standard accounting principles, will truncate amortization of certain net periodic benefit costs. Thus, the company requested an accounting order providing approval to record the net impact of the curtailment gain as a reduction to the regulatory asset associated with the existing pension and other post-retirement welfare assets. Staff's public meeting memorandum recommended approval of PacifiCorp's application, concluding that, "Staff believes approval of [PacifiCorp's] request to be in the best interest of ratepayers."[8] The Commission adopted Staff's recommendation, which had the effect of smoothing pension costs and credits by allowing plan amortizations to be returned to customers in rates over a period of years rather than PacifiCorp recognizing the net gains from the triggering pension event as earnings in a single year. The relief PacifiCorp requests here is consistent with

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[6] Docket UM 1400, Order No. 08-598 (Dec. 24, 2008).
[7] *Id.*, Appendix A, at 2. The application in docket UM 1400 also addressed an offsetting pension event related to a measurement date change. The overall impact of requested accounting changes was a net pretax benefit to customers of $27 million total-company ($41 million for the curtailment gain less $14 million due to the measurement date change adjustment). PacifiCorp requested a 10-year amortization of the $27 million.
[8] *Id.*

Order No. 08-598, as the requested deferral and accounting treatment will allow PacifiCorp to continue to smooth the costs and credits associated with its remaining defined benefit contribution plans over the actuarial lives of the employees who are vested in the plan. PacifiCorp will accomplish this by amortizing actuarial loss/gain and prior service cost/credit over a period of years, irrespective of pension events occurring in any given year, and in a manner that "closely approximate[s] the . . . amortizations that would have continued if it were not for the accelerated recognition due to the [pension event]."[9] Such an outcome will avoid subjecting pension costs to substantial interannual variability.

C. Proposed Accounting

If this application is approved, PacifiCorp proposes to record deferred amounts in Account 182.3, Other Regulatory Assets. In the absence of approval of this Application, the immediate recognition of a pro rata portion of actuarial losses and gains would be recorded in Account 926, Employee Pensions and Benefits.

D. Estimate of Amounts

PacifiCorp estimates the pension event in 2018 will trigger immediate recognition of approximately $21 million in actuarial losses and gains, which the company seeks permission to defer in this application.

E. Notice

A copy of the Notice of Application and a list of persons served with the notice are attached as Exhibit A to this application.

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[9] *Id.*

V. REQUEST FOR ACCOUNTING ORDER

For the reasons set forth above, in accordance with ORS 757.120 and ORS 757.125, PacifiCorp respectfully requests authorization to record the impact of pension events as offsets to the existing pension regulatory asset or liability. Additionally, the company requests authorization to amortize the impact of pension events (*i.e.*, the increase or reduction in regulatory assets or liabilities) to expense over the same period that is used to amortize the underlying regulatory assets or liabilities with the opportunity to recover the amount in rates as part of net periodic benefit cost. Together with the request for deferral described above, this accounting order will allow the company to account for the impact of pension events in a manner that closely approximates the amortization that would have continued if it were not for the accelerated recognition required by standard accounting principles due to occurrence of a pension event. Rate treatment of the costs associated with the accounting order will be determined in a future rate proceeding.

VI. CONCLUSION

PacifiCorp respectfully requests that the Commission issue an order authorizing: (1) deferral of the expected impacts associated with the occurrence of a pension event in 2018, in accordance with ORS 757.259(2)(e) and OAR 860-027-0300; and (2) amortization of the impact of pension events (*i.e.*, the increase or reduction in regulatory assets or liabilities) to expense over the same period that is used to amortize the underlying regulatory assets or liabilities with the opportunity to recover the amount in rates as part of net periodic benefit cost, in accordance with ORS 757.120 and ORS 757.125. Together, these requests allow the company to account for the impact of pension events, such as settlements and curtailments, through deferral and amortization in a manner that closely approximates the amortization that would have continued if it were not for the accelerated recognition required by standard accounting principles due to occurrence of a pension event.

Respectfully submitted this 24th day of December, 2018.

By: ______________________
Matthew McVee
Chief Regulatory Counsel

EXHIBIT A

NOTICE

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UM ____

In the Matter of PACIFICORP d/b/a PACIFIC POWER Application for Approval of Deferred Accounting and Accounting Order Related to Non-Contributory Defined Benefit Pension Plans.	**NOTICE OF APPLICATION FOR DEFERRED ACCOUNTING AND ACCOUNTING ORDER**

On December 24, 2018, PacifiCorp d/b/a Pacific Power filed an application with the Public Utility Commission of Oregon (Commission) for an order authorizing the company to defer the expected impacts associated with the occurrence of a pension event in 2018, and any subsequent similar pension events, and to amortize the impact of pension events (*i.e.*, the increase or reduction in regulatory assets or liabilities) to expense over the same period that is used to amortize the underlying regulatory assets or liabilities with the opportunity to recover the amount in rates as part of net periodic benefit cost. Together, these requests allow the company to account for the impact of pension events, such as settlements and curtailments, through deferral and amortization in a manner that closely approximates the amortization that would have continued if it were not for the accelerated recognition required by standard accounting principles due to occurrence of a pension event.

The granting of this application will not authorize a change in rates, but will permit the Commission to consider allowing such deferred amounts in rates in a subsequent proceeding. To obtain a copy of the application, contact the following:

Oregon Dockets
PacifiCorp
825 NE Multnomah Street, Suite 2000
Portland, OR 97232
E-mail: oregondockets@pacificorp.com

Any person who wishes to submit written comments to the Commission must do so within 25 days of the date of PacifiCorp's application.

Respectfully submitted on December 24, 2018.

By: ______________________________
Matthew D. McVee
Chief Regulatory Counsel

CERTIFICATE OF SERVICE

I certify that I served a true and correct copy of PacifiCorp's **Notice of Application for Deferred Accounting and Accounting Order** related to non-contributory defined benefit pension plans on the parties listed below via electronic mail in compliance with OAR 860-001-0180.

Service List
UE 263

Citizens' Utility Board of Oregon (W) 610 SW Broadway, Suite 400 Portland, OR 97205 dockets@oregoncub.org	Pacific Power (W) 825 NE Multnomah St., Suite 2000 Portland, OR 97232 oregondockets@pacificorp.com
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Dated this 24th day of December, 2018.

Jennifer Angell

Jennifer Angell
Supervisor, Regulatory Operations