BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

In the Matter of the Application of PacifiCorp (U 901 E) for Authority to Establish a Memorandum Account for Costs Associated with Pension Liabilities.	Application No. 19-10-____

APPLICATION OF PACIFICORP (U 901 E) FOR AUTHORITY TO ESTABLISH A MEMORANDUM ACCOUNT FOR COSTS ASSOCIATED WITH PENSION LIABILITIES

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Date: October 8, 2019

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APPLICATION OF PACIFICORP (U 901 E) FOR AUTHORITY TO ESTABLISH A MEMORANDUM ACCOUNT FOR COSTS ASSOCIATED WITH PENSION LIABILITIES

In accordance with Article 2 of the Commission's Rules of Practice and Procedure, PacifiCorp d/b/a Pacific Power (PacifiCorp) submits this application requesting authorization to establish a memorandum account to record costs associated with gains and losses from pension settlements and curtailments. PacifiCorp requests an effective date of December 31, 2018,[1] for the proposed Pension Liability Memorandum Account (PLMA). There are no ratemaking changes associated with this application.

I. DESCRIPTION OF REQUEST

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

[1] PacifiCorp originally requested authority to establish the PLMA through Tier 3 Advice Letter 578-E (filed December 24, 2018). At the direction of the Commission's Legal Division, PacifiCorp has withdrawn AL 578-E and is filing this application to establish the PLMA.

earn pension benefits based on a cash balance formula through December 31, 2016. Effective January 1, 2017, non-union employee participants with a cash balance benefit in the pension plans were no longer eligible to receive pay credits in their cash balance formula. In general for union employees, benefits under the pension plans were frozen at various dates from December 31, 2007 through December 31, 2011, as eligible employees are now being provided with enhanced 401(k) plan benefits. However, certain limited union participants continue to earn benefits under the pension plan based on the employee's years of service and a final average pay formula. On or after termination, eligible non-union pension plan participants can choose either a lump sum payout of the balance of the participant's hypothetical cash balance or an actuarial equivalent life annuity.

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 amortization expense and is in accordance with generally accepted accounting principles.

If certain pension events occur, however, Accounting Standards Codification (ASC) 715-30 Compensation – Retirement Benefits (ASC 715), 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 occurred in 2018, triggering a requirement for PacifiCorp to expense approximately $22 million in pension-related losses for the year. This may recur in future years as well given the number of plan participants nearing retirement age, the current low interest rate environment. Without a memorandum account, this will necessitate recording certain pension-related gains or losses in annual earnings in each such year, rather than preserving the option to amortize these gains and losses over the actuarial remaining life expectancy of plan participants.

A. Funded Status on the Balance Sheet

ASC 715 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 the 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, 2018, PacifiCorp's pension plans had a funded status of negative $163 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 2017 and 2018.

Table 1: Funded Status of PacifiCorp's Pension Plans

Pension Plans (in millions)	2018	2017
Plan Assets at Fair Value, end of year	$941	$1,111
Less -Benefit Obligation, end of year	$1,105	$1,251
Funded Status	**($163)**	**($140)**

B. Net Periodic Benefit Costs

PacifiCorp's net periodic benefit costs are the pension costs reflected on the company's books and includes 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 return on plan assets (discussed in greater detail below).

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

C. 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

[2] See D.10-09-010 (approving settlement agreement in A.09-11-015).

715, the portion of the funded status not yet recognized in net periodic benefit costs must be included in AOCI. PacifiCorp, as a regulated entity, applies the provisions of ASC 980 – Regulated Operations 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.

As of December 31, 2018, the funded status of PacifiCorp's pension plans included unrecognized net periodic benefit costs of $460 million, of which $443 million was reflected as a regulatory asset. Table 2 below demonstrates how the unrecognized net periodic benefit costs changed during calendar year 2018.

Table 2: Unrecognized Net Periodic Benefit Costs

Pensions (in millions)	Regulatory Asset	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2017	$418	$20	$438
Net (gain) loss arising during the year	$59	($2)	$57
Net Amortization	($12)	($1)	($13)
Settlement	($22)	($0)	($22)
Total	$25	($3)	$22
Balance, December 31, 2017	**$443**	**$17**	**$460**

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 (re-measured annually). This allows for smooth recognition of the unrecognized costs each year through consistent amortization expense.

D. 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, recognition as expense in a single year versus amortization to expense over a period of years).

Curtailments result from a significant reduction in the expected years of future service of plan employees or for a significant number of employees, the elimination of the accrual of defined benefits related to 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 relates to the affected participants which 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.

E. Anticipated Pension Events and PacifiCorp's 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 costs 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.

As allowed under ASC 980, PacifiCorp currently records the unrecognized 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 the current ASC 715 amortization 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 triggered for immediate recognition in the proposed Pension Liability Memorandum Account going forward in order to recover those amounts through amortization (using the current ASC 715 period) rather than recognizing an immediate earnings gain or loss in years when a triggering pension event occurs. PacifiCorp believes this would allow for recognition of relatively stable pension costs.

This Application will not increase any tariff rate, cause the withdrawal of any service, or conflict with any other schedule or rule.

II. STATUTORY AND REGULATORY REQUIREMENTS

A. Applicant and Correspondence (Rules 2.1(a) and (b))

PacifiCorp is a public utility organized and existing under the laws of the state of Oregon. PacifiCorp engages in the business of generating, transmitting, and distributing electric energy in portions of northern California and in Idaho, Oregon, Utah, Washington, and Wyoming. PacifiCorp's principal place of business is 825 NE Multnomah Street, Suite 2000, Portland, Oregon 97232.

Communications regarding this application should be addressed to:

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In addition, PacifiCorp respectfully requests that all data requests in this case be addressed to:

By e-mail (preferred): datarequest@pacificorp.com

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

B. Statutory and Procedural Authority (Rule 2.1)

Rule 2.1 requires that all applications state clearly and concisely the authorization or relief sought, cite by appropriate reference the statutory provision or other authority under which

Commission authorization or relief is sought, and be verified by the applicant. The relief being sought is summarized in Section I and in the proposed Pension Liability Memorandum Account provided in Exhibit A to this Application. The statutory and other authority under which this relief is being sought includes Article 2 of the Commission's Rules of Practice and Procedure, Section 701 of the California Public Utilities Code, and this Commission's prior decisions, orders, and resolutions. An officer of PacifiCorp has verified this application as required by Rules 1.11 and 2.1.

C. Proposed Categorization, Need for Hearing, Issues to be Considered, Relevant Safety Considerations, and Proposed Schedule (Rule 2.1(c))

1. Proposed Category

PacifiCorp proposes that this proceeding should be categorized as ratesetting. Although the relief requested in this Application will not affect PacifiCorp's rates, the definitions of "adjudicatory" and "quasi-legislative" categories set forth in Rules 1.3(a) and 1.3(d) do not apply to this Application. When a proceeding does not clearly fall within the definitions of the categories in Rule 1.3, Rule 7.1(e)(2) specifies that it should be conducted under the rules for ratesetting proceedings unless the Commission determines otherwise.

2. Need for Hearing

PacifiCorp does not believe that evidentiary hearings will be necessary. PacifiCorp does not anticipate that disputed issues of fact related to the relief requested in this Application will arise. The information provided in this Application and in the attached tariff sheets enables the Commission to arrive at its findings and conclusions on all the issues required to evaluate this Application.

3. Issues to be Considered and Relevant to Safety Considerations

The issues to be considered are described in this Application, and supported in the attached Exhibit A.

In D.16-01-017, the Commission amended Rule 2.1(c) to require that applications clearly state the "relevant safety considerations." The company is committed to promoting the health, safety, comfort and convenience of customers and the public at large. Safety for PacifiCorp employees, customers, and stakeholders is one of PacifiCorp's six core principles. PacifiCorp has developed and implemented various programs to help customers, employees, and stakeholders understand their own personal safety. In 2012, PacifiCorp received Prestigious Member Recognition from the National Safety Council for holding safety as a core value and making safety a priority in business. In 2013, 2015, and 2016 PacifiCorp received the Occupational Excellence Achievement Award from the National Safety Council for working to reduce on the job injuries. PacifiCorp was recognized for its safety achievement by the Edison Electric Institute by being in the top 1% of the safest electrical utilities in America for 2015. PacifiCorp also holds its contractors to a high standard of safety by requiring its contractors to register with a third-party evaluator of the contractor's safety performance.

The company complies with all applicable safety codes, including, but not limited to, the National Electric Safety Code, the Occupational Health and Safety Act, and any applicable state health and safety act requirements, at all of its generation facilities. Certain safety codes may also be applicable to the operation of the company's transmission and distribution facilities. PacifiCorp has developed standards that meet or exceed the National Electrical Safety Code. Employees are trained in work practice regulations along with company construction standards to the highest standards and consistency.

The company also works to develop teamwork to mitigate safety risks and has developed and implemented programs to continue improvement in safety. The company continuously communicates safety goals in order to stay consistently on message across the organization. These programs include training and communicating from the top down, consistently delivering the same safety message and programs to all locations, and auditing the communications and programs. The company sends daily emails to all of its employees noting accident reports and containing general reminders about safety. Other examples of the company's commitment to safety include periodic emails with general safety tips for workplace and personal safety, safety committees for each floor of its corporate offices and field offices, annual safety training requirements which are linked to each employee's performance review, daily hazard assessment meetings for field offices, and annual evacuation drills.

The company prioritizes safety for all resources and to the benefit of all employees, customers, and stakeholders.

4. Proposed Schedule

PacifiCorp proposes the following schedule, which allows for expedited Commission resolution of the Application:

Application Filed	October 8, 2019
Protest/Responses to Application	30 days after notice appears in the Daily Calendar
Prehearing Conference	November 8, 2019
Scoping Memo	November 22, 2019
Proposed Decision	January 3, 2020
Final Commission Decision	February 9, 2020

D. Organization and Qualification to Transact Business (Rule 2.2)

A certified copy of PacifiCorp's Articles of Incorporation, as amended and presently in effect, was filed with the Commission in A.97-05-011, which resulted in Commission issuance of D.97-12-093, and is incorporated by reference under Rule 2.2.

E. List of Exhibits

Exhibit A to this Application contains the proposed tariff sheets for the PLMA.

IV. CONCLUSION

Based on the information provided in this Application, PacifiCorp respectfully requests that the Commission issue an order granting PacifiCorp the authority to establish the Pension Liability Memorandum Account, with an effective date of December 31, 2018.

Respectfully submitted October 8, 2019, at San Francisco, California.

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By: Carla Scarsella

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VERIFICATION

I am an officer of the applicant in the above-captioned proceeding and am authorized to make this verification on its behalf. The statements in the foregoing document are true on my own knowledge, except as to matters which are stated therein on information or belief, and as to those matters, I believe them to be true.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on October 8, 2019, at Portland, Oregon.

Etta Lockey
Vice President, Regulation

Exhibit A

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Memorandum Accounts

1. PURPOSE

The purpose of a Memorandum Account is to record all costs incurred by the Company for Specified Projects authorized by the Commission. Currently authorized Specified Projects are set forth in Section 2.C.

2. DEFINITIONS

a. Authorization Date:
The Authorization Date shall be the date on which the Commission authorizes the Company to begin recording costs for a Specified Project in a memorandum account.

b. Interest Rate:
The Interest Rate shall be 1/12 of the most recent month's interest rate on Commercial Paper (prime, 3 months), published in the Federal Reserve Statistical Release, G.13. Should publication of the interest rate on Commercial Paper (prime, 3 months) be discontinued, interest shall so accrue at the rate of 1/12 of the most recent month's interest rate on Commercial Paper which is published in the Federal Reserve Statistical Release, G.13, or its successor publication.

c. Specified Project:
A Specified Project is a project authorized by the Commission for inclusion in a memorandum account. Specified Projects authorized by the Commission are listed below:

	Specified Project	Interest Bearing Memorandum Account*	
(1)	Catastrophic Event	Yes	
(2)	Powerdale Decommissioning Cost Memorandum Account	Yes	
(3)	Fire Hazard Prevention Memorandum Account	Yes	
(4)	Repairs Deduction Memorandum Account	Yes	
(5)	Tax Relief, Unemployment Insurance Authorization, and Job Creation Act of 2010(New Tax Law) Memorandum Account	Yes	
(6)	Assembly Bill (AB) 32 Implementation Costs Memorandum Account	Yes	
(7)	Bridge Funding Memorandum Account	Yes	
(8)	Greenhouse Gas Allowance Revenue Administrative Cost Memorandum Account	Yes	
(9)	Greenhouse Gas Allowances Customer Outreach Costs Memorandum Account	Yes	
(10)	Carbon Decommissioning Cost Memorandum Account	Yes	
(11)	Joy Longwall Memorandum Account (JLMA)	Yes	
(12)	Net Metering Aggregation Memorandum Account	Yes	
(13)	Tax Reform Memorandum Account	Yes	
(14)	Emergency Customer Protections Memorandum Account (ECPMA)	Yes	
(15)	Fire Risk Mitigation Memorandum Account (FRMMA)	Yes	
(16)	Officer Compensation Memorandum Account (OCMA)	No	
(17)	Pension Liability Memorandum Account (PLMA)	No	(N)

* Interest shall accrue monthly to interest-bearing Memorandum Accounts by applying the Interest Rate to the average of the beginning and ending balance. (L)

(Continued)

PRELIMINARY STATEMENT (Continued)
PART C

2. DEFINITIONS (continued) (L)

d. Catastrophic Event:
A Catastrophic Event is an event which is declared a disaster by competent state or federal authorities.

3. CATASTROPHIC EVENT MEMORANDUM ACCOUNT (CEMA) (L)

The purpose of the CEMA is to record all costs incurred by the Company associated with a Catastrophic Event for:

(1) restoring utility service to the Company's Customers;
(2) repairing, replacing, or restoring damaged utility facilities; and
(3) complying with governmental agency orders.

Entries to the CEMA shall be made at the end of each month commencing with the month in which the Catastrophic Event occurs.

If a Catastrophic Event occurs, the Company shall, if possible, inform the Executive Director by letter within 30 days after the Catastrophic Event, if the Company has started booking costs into CEMA. Copies of the letter shall be mailed to the Director of the Commission Advisory & Compliance Division (CACD), and the Branch Chief of the CACD. The letter shall specify the Catastrophic Event, date, time, location, service areas affected, impact on the Company's facilities, and an estimate of the extraordinary costs expected to be incurred. Costs due to expense and capital items shall be shown separately.

Costs recorded in the CEMA may be recovered in rates only after a request by the Company, showing of reasonableness, and approval by the Commission. Such a request may be made by a formal application specifically for that purpose, by inclusion in a subsequent general rate case or other rate setting request.

4. POWERDALE DECOMMISSIONING COST MEMORANDUM ACCOUNT (PDCMA)

The purpose of this memorandum account is to record decommissioning costs associated with the 6-MW Powerdale generation facility, located in Hood River County, Oregon. Recovery in rates and allocation of recorded costs recorded in the PDCMA may occur only after PacifiCorp has made a formal request and showing of reasonableness, and approval by the Commission. PacifiCorp's request shall be made by formal application, specifically by the inclusion in a future general rate case or other rate setting application.

Entries made to the PDCMA at the end of the month shall be the total costs of the decommissioning project as allocated to the California jurisdiction.

Interest will accrue monthly to the PDCMA by applying one-twelfth of the interest rate to the average of the beginning and ending balance in the PDCMA. The Interest Rate shall be the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release.

(Continued)

PRELIMINARY STATEMENT (Continued)
PART C

17. Fire Risk Mitigation Memorandum Account (FRMMA)

In compliance with Senate Bill 901 and Public Utilities Code Section 8386(j), the purpose of the Fire Risk Mitigation Memorandum Account (FRMMA) is to record incremental costs of fire risk mitigation work that is not otherwise recovered in PacifiCorp's adopted revenue requirements. Such costs shall include, but are not limited to, expense and capital expenditures for: advanced system hardening and resiliency; expanded automation and protection; improved wildfire detection; enhanced event response capacity, and vegetation management activities. Costs recorded to the FRMMA will not include costs approved for recovery in PacifiCorp's General Rate Cases (GRCs) or recovered through PacifiCorp's Catastrophic Event Memorandum Account (CEMA), Fire Hazard Prevention Memorandum Account (FHPMA) or other cost recovery mechanisms. The FRMMA applies to all customer classes, except for those specifically excluded by the Commission.

Entries made to the FRMMA will be the costs associated with complying with the measures described above. Interest will accrue monthly to the FRMMA by applying one-twelfth of the interest rate to the average of the beginning and ending balance in the FRMMA. The interest rate shall be the interest rate on three-month Commercial Paper for the previous month, as reported in the Federal Reserve Statistical Release. Entries made to the FRMMA will only be authorized for recovery through a subsequent application or through other appropriate filings as authorized by the commission.

18. Pension Liability Memo Account (PLMA) (N)

The purpose of this memorandum account is to record gains and losses from pension and post-retirement settlements and curtailments measured and recognized in accordance with Generally Accepted Accounting Principles (GAAP). Recovery in rates and allocation of costs recorded in the PLMA may occur only after PacifiCorp has made a formal request and showing of reasonableness, and approval by the Commission. PacifiCorp's request shall be made by formal application, specifically by the inclusion in a future general rate case or other rate setting application.

Entries shall be made to the PLMA in the period the gains and losses are recognized in accordance with GAAP. (N)

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CERTIFICATE OF SERVICE

I hereby certify that I have this day caused a copy of the foregoing

APPLICATION OF PACIFICORP (U 901 E) FOR AUTHORITY TO ESTABLISH A MEMORANDUM ACCOUNT FOR COSTS ASSOCIATED WITH PENSION LIABILITIES

to be served on Chief ALJ Anne Simon via e-mail and overnight delivery.

Chief ALJ Anne Simon
California Public Utilities Commission
Division of Administrative Law Judges
505 Van Ness Avenue
San Francisco, California 94102
Email: anne.simon@cpuc.ca.gov

Executed on October 8, 2019, at Portland, Oregon.

Katie Savarin

Katie Savarin
Coordinator, Regulatory Operations