BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of PACIFIC POWER & LIGHT COMPANY Petition for an Order Approving Deferred Accounting and Accounting Order Related to Non-Contributory Defined Benefit Pension Plans	DOCKET UE-__________ PACIFIC POWER & LIGHT COMPANY'S PETITION FOR ACCOUNTING ORDER

I. INTRODUCTION

1 In accordance with WAC 480-07-370(3), Pacific Power & Light Company (Pacific Power), a division of PacifiCorp, submits this petition for an accounting order allowing Pacific Power to; (1) defer the expected impacts associated with the occurrence of pension events; and (2) amortize the impact of pension events (*i.e.*, the increase or reduction in regulatory assets or liabilities) to expense over the same period used to amortize the underlying regulatory assets or liabilities, with the opportunity for rate recovery of the net periodic benefit costs. Together, these requests allow the company to account for the impact of pension events, such as settlements and curtailments, in a manner that closely approximates the amortization that would have continued but for the accelerated recognition required by standard accounting principles as a result of a pension event.

2 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.

3 If certain pension events occur, however, Accounting Standards Codification (ASC) 715-30, which is the Financial Accounting Standards Board (FASB) accounting standard governing defined benefit pension plans, requires PacifiCorp to recognize portions of these otherwise amortizable costs in earnings immediately 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. This scenario 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 an order from the Washington Utilities and Transportation Commission (Commission), 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.

4 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. BACKGROUND

5 Pacific Power is an electric utility and public service company doing business in the state of Washington under RCW 80.04.010, and its public utility operations, retail rates, service, and accounting practices are subject to the Commission's jurisdiction. PacifiCorp also provides retail electricity service under the name Pacific Power in

Oregon and California and under the name Rocky Mountain Power in Idaho, Utah, and Wyoming. PacifiCorp is the owner of the pension plans that are the subject of this Petition. The company's principal place of business is 825 NE Multnomah Street, Suite 2000, Portland, Oregon, 97232.

6 Pacific Power's name and address:

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In addition, Pacific Power respectfully requests that data requests be addressed to:

By e-mail (preferred)	datarequest@pacificorp.com
By regular mail	Data Request Response Center PacifiCorp 825 NE Multnomah Street, Suite 2000 Portland, OR 97232

Informal inquiries may be directed to Ariel Son, Regulatory Affairs Manager, at (503) 813-5410.

III. REQUEST FOR ACCOUNTING ORDER

A. PacifiCorp's Pension Plans.

7 PacifiCorp's 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.

8 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.

9 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 Washington, PacifiCorp recovers its net periodic benefit costs in rates.[1]

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

10 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

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[1] See, e.g., *Wash. Utils. & Transp. Comm'n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-032065, Order 06 at ¶¶28, 87 (Oct. 27, 2004).

the provisions of ASC 980 (Regulated GAAP[2]) 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.

11 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**

12 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

13 Under ASC 715, two primary pension events change the timing for recognizing previously unrecognized net periodic benefit costs in earnings, requiring immediate

[2] Generally Accepted Accounting Principles.

recognition to benefit costs rather than the longer term amortization to benefit costs—settlements and curtailments.

14 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).

15 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.

16 When pension events have occurred in the past, Pacific Power 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.[3]

F. Anticipated Pension Events and Pacific Power's Proposed Treatment.

17 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.

18 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

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[3] See, *e.g.*, *Wash. Utils. & Transp. Comm'n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-090205, Order 09 at ¶ 57 n.86 (Dec. 16, 2009).

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.

G. Reasons for Accounting Order Allowing Deferral.

19 As discussed above, Pacific Power requests an accounting order allowing deferral of the expected impacts associated with pension events that would otherwise trigger an immediate recognition of a pro rata portion of actuarial losses and gains. The Commission has historically emphasized the need for "gradualism in rate change[s]" and "stability of rates."[4] Pacific Power's proposal here to continue amortizing pension costs and credits advances both principles.

20 Pacific Power's request is consistent with the Commission's previous approval of comparable accounting treatment for similar and related pension events. For example, in Docket UE-090205, Order 09 (Order 09), the Commission approved and adopted a Settlement Stipulation filed by the parties to a general rate case that included, among other things, a reduction to the regulatory asset associated with PacifiCorp's existing pension and other post-retirement welfare assets resulting from a pension curtailment

[4] *Wash. Utils. & Transp. Comm'n v. Puget Sound Energy, Inc.*, Docket UE-072300, Order 12 at ¶68 (Oct. 8, 2008) (discussing the factors that are considered in determining the rate spread in a general rate case).

gain of $2.9 million for Washington ($41 million system-wide).[5] In that case, participation in PacifiCorp's defined benefit pension plans declined substantially as a result of plan modifications the company offered in August 2008 that were accepted by a large percentage of employees. This shift required the company to record a substantial curtailment gain. Curtailments are one of the triggering pension events described above that, under standard accounting principles, truncate amortization of certain net periodic benefit costs. The Commission's approval and adoption of the Settlement Stipulation had the effect of smoothing pension credits by allowing plan amortizations to be returned to customers over a period of years rather than PacifiCorp recognizing the net gains from the triggering pension event as earnings in a single year.

21 The relief Pacific Power requests here is consistent with the pension accounting authorized in Order 09, as the requested deferral and accounting treatment will allow the Company 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. This treatment closely approximates the amortization that would have continued but for the accelerated recognition required by standard accounting principles due to a pension event. Such an outcome will avoid subjecting pension costs to

[5] *Wash. Utils. & Transp. Comm'n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-090205, Order 09 at ¶¶29-32, 57 n.86 (Dec. 16, 2009). PacifiCorp's accounting petition in Docket UE-090205 also addressed an offsetting pension event related to a measurement date change, which would have reduced the overall pretax benefit to customers associated with the requested accounting changes by approximately $14 million system-wide, with amortization of the net gain of approximately $27 million over a period of ten years. In the Settlement Stipulation, however, the parties to the general rate case stipulated to the $41 million system-wide curtailment gain without an offset ($2.9 million for Washington customers), with amortization over a period of three years. *Id.* at ¶¶29-32.

substantial interannual variability.

H. Proposed deferred accounting

22 If the Commission approves this petition, Pacific Power proposes to record deferred amounts in Account 182.3, Other Regulatory Assets. In the absence of approval of this Petition, Pacific Power will record the immediate recognition of a pro rata portion of actuarial losses and gains in Account 926, Employee Pensions and Benefits.

V. CONCLUSION

23 Pacific Power respectfully requests that the Commission issue an accounting order authorizing the Company to (1) defer the expected impacts associated with the occurrence of pension events; and (2) amortize the impact of pension events (*i.e.*, the increase or reduction in regulatory assets or liabilities) to expense over the same period used to amortize the underlying regulatory assets or liabilities, with the opportunity for rate recovery of the net periodic benefit costs.

Respectfully submitted this 24th day of December, 2018.

By: ______________________

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