



825 NE Multnomah, Suite 2000
Portland, Oregon 97232

November 4, 2008

***VIA ELECTRONIC FILING
AND OVERNIGHT DELIVERY***

Mr. David W. Danner
Executive Director and Secretary
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Drive SW
Olympia, WA 98504-7250

RE: Docket UE-08_____
Petition of PacifiCorp for an Accounting Order
Regarding Pension Curtailment

Dear Mr. Danner:

Enclosed for filing is PacifiCorp's Petition for an Accounting Order Regarding Pension Curtailment. An electronic copy of this filing will also be sent to the Commission's record center.

Communications regarding this petition should be addressed to:

Washington Dockets
PacifiCorp
825 NE Multnomah, Suite 2000
Portland, OR 97232
WashingtonDockets@PacifiCorp.com

Michelle Mishoe
PacifiCorp
825 NE Multnomah, Suite 2000
Portland, OR 97232
Michelle.Mishoe@PacifiCorp.com

In addition, PacifiCorp requests that all data requests regarding this petition be addressed to:

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

By Facsimile: (503)813-6060

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

Washington Utilities and Transportation Commission

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Please direct any informal inquiries to Cathie Allen, Regulatory Affairs Manager, at (503) 813-5934.

Sincerely,

A handwritten signature in cursive script that reads "Andrea L. Kelly / ca".

Andrea L. Kelly
Vice President, Regulation

Enclosure

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

In the Matter of the Petition of
PACIFICORP, d.b.a. Pacific Power,
for an Accounting Order Regarding
Pension Curtailment

**DOCKET NO. UE-08 _____
PETITION OF PACIFICORP
FOR AN ACCOUNTING ORDER**

Pursuant to WAC 480-07-370(b), PacifiCorp, d.b.a. Pacific Power (“PacifiCorp” or “Company”), petitions the Washington Utilities and Transportation Commission (“Commission”) for an accounting order authorizing the Company to record a net reduction to the regulatory asset associated with the existing pension and other postretirement welfare assets for a pension curtailment gain, and a measurement date change transitional adjustment, effective as of the filing date of this Petition. In support of this Petition, PacifiCorp states:

1. PacifiCorp is an electrical company and public service company in the state of Washington pursuant to RCW 80.04.010 and subject to the jurisdiction of the Commission with regard to its rates, service and accounting practices. PacifiCorp also provides retail electricity service in the states of California, Idaho, Oregon, Utah and Wyoming. PacifiCorp’s address is 825 NE Multnomah, Portland, OR 97232.
2. PacifiCorp files this Petition pursuant to RCW 80.01.040(3), which authorizes the Commission to regulate in the public interest the rates, service, facilities, and practices of electric companies; RCW 80.040.090, which authorizes the Commission to prescribe the forms of accounts to be kept by public service companies; and WAC 480-100-203,

pertaining to the accounting requirements applicable to electric utilities in the state of Washington.

3. Communications regarding this Application should be addressed to:

Washington Dockets
PacifiCorp
825 NE Multnomah, Suite 2000
Portland, OR 97232
Email: washingtondockets@pacificorp.com
Telephone: 503-813-5934
Facsimile: 503-813-6060

Michelle R. Mishoe
Legal Counsel
Pacific Power
825 NE Multnomah, Suite 1800
Portland, OR 97232
Email: michelle.mishoe@pacificorp.com
Telephone: 503-813-5977
Facsimile: 503-813-7252

Additionally, PacifiCorp respectfully requests that all data requests regarding this matter be addressed to:

By email (preferred)

datarequest@pacificorp.com

By regular mail

Data Request Response Center
PacifiCorp
825 NE Multnomah, Suite 2000
Portland, OR 97232

Informal inquiries may be directed to Cathie Allen, State Regulatory Manager, at (503) 813-5934.

4. Recently, the Company offered all non-union employees a retirement choice program and changed the retirement approach to a 401(k) only approach. Through negotiations, Local 659 also agreed to a 401(k) only approach, effective January 2008. Non-union employees could opt for either a 401(k) retirement plan, directed by individual employees; or for the Company's cash balance retirement approach, directed by the Company. The level of employee participation in the 401(k) retirement plan option requires the Company to record a substantial curtailment gain, in accordance with financial accounting standards. Additionally, the Company is required to change the

measurement date for pension and other postretirement welfare liabilities to implement a new financial accounting standard. The Company seeks approval to record the net impact of the curtailment gain and the measurement date change as a reduction to the regulatory asset associated with the existing pension and other postretirement welfare assets. If authorized, the net reduction to regulatory assets would avoid the recording of income to the Company's benefit and directly charging retained earnings. This proposal is designed to maintain normalized pension costs and avoid exposing customers to potential cost volatility from changes in certain financial accounting standards.

5. With the requested accounting treatment, the Company projects a net pre-tax benefit to customers of \$27 million system-wide, which the Company proposes to amortize over a ten-year period. Absent authorization to record the reduction to regulatory assets, the adjustments must be recorded against the Company's current fiscal year income and retained earnings, and therefore unavailable to offset future higher pension expense costs.

6. The Company respectfully requests that the Commission approve this Application by December 31, 2008 to allow the Company to align the new accounting treatment with the removal of the lag in measurement date.

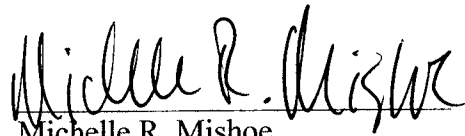
7. Attached as support for this Application as Exhibit 1 is the testimony of Stephen R. McDougal.

WHEREFORE, PacifiCorp respectfully requests an accounting order authorizing it to record a net reduction in account 182.3 to offset the existing pension and other postretirement welfare regulatory asset for the curtailment gain triggered by the retirement choice program and Local 659 change, and measurement date change

transitional adjustment. Additionally, the Company requests authorization to amortize the reduction in regulatory assets to expense over a ten-year period with the opportunity to recover the amount in rates as part of net periodic benefit cost. Rate treatment of the costs associated with the accounting order will be determined in a future rate proceeding.

DATED: November 4, 2008.

Respectfully submitted,

A handwritten signature in black ink that reads "Michelle R. Mishoe". The signature is written in a cursive style and is positioned above the printed name.

Michelle R. Mishoe
Legal Counsel
Pacific Power

1 **Q. Please state your name, employer and business address.**

2 A. My name is Steven R. McDougal. I am employed by PacifiCorp (“Company”),
3 which operates as Rocky Mountain Power and Pacific Power. My business
4 address is 201 South Main, Suite 2300, and Salt Lake City, Utah, 84111.

5 **Qualifications**

6 **Q. What is your current position at the Company and what is your employment
7 history?**

8 A. I am currently employed as the director of revenue requirements for the
9 Company. I have been employed by PacifiCorp or its predecessor companies
10 since 1983. My experience at PacifiCorp includes various positions within
11 regulation, finance, resource planning, and internal audit.

12 **Q. What are your responsibilities as director of revenue requirements?**

13 A. My primary responsibilities include overseeing the calculation and reporting of
14 the Company’s regulated earnings or revenue requirement, assuring that the inter-
15 jurisdictional cost allocation methodology is correctly applied, and the
16 explanation of those calculations to regulators in the jurisdictions in which the
17 Company operates.

18 **Q. What is your educational background?**

19 A. I received a Master of Accountancy from Brigham Young University with an
20 emphasis in Management Advisory Services in 1983 and a Bachelor of Science
21 degree in Accounting from Brigham Young University in 1982. In addition to my
22 formal education, I have also attended various educational, professional and
23 electric industry-related seminars.

1 **Q. Have you testified in previous proceedings?**

2 A. Yes. I have provided testimony before the Utah Public Service Commission, the
3 Washington Utilities and Transportation Commission, the California Public
4 Utilities Commission, the Idaho Public Utilities Commission, the Wyoming
5 Public Service Commission and the Utah State Tax Commission.

6 **Purpose of Testimony**

7 **Q. What is the purpose of your direct testimony?**

8 A. The purpose of my testimony is to request authorization for the recording of a net
9 reduction in the existing pension and postretirement welfare regulatory asset for a
10 pension curtailment gain and a measurement date change transitional adjustment.
11 If authorized, the net reduction in regulatory asset would avoid the recording of
12 income to the Company's benefit and directly charging retained earnings. The
13 Company proposal is an effort to maintain normalized pension costs and avoid
14 exposing customers to the cost volatility imposed by financial accounting
15 pronouncements.

16 **Proposed Accounting Changes**

17 **Q. Why is the Company requesting the authorization of a net reduction in**
18 **pension-related regulatory assets?**

19 A. A retirement choice program was offered to non-union participants of
20 PacifiCorp's Retirement Plan ("Retirement Plan"). Non-union participants had
21 the option to switch from the cash balance formula offered in the Retirement Plan
22 to enhanced benefits in the Company's defined contribution 401(k) plan effective
23 January 1, 2009. Participants electing this change will not be able to switch back

1 to the Retirement Plan's cash balance formula. The employee election period
2 closed on October 3, 2008. As required by accounting financial standards, the
3 Company must follow curtailment accounting when an event occurs that
4 significantly reduces the accrual of defined pension benefits. The enactment of
5 the new retirement choice program and the number of employees choosing the
6 401(k) plan will require the Company to record a substantial curtailment gain. In
7 addition, effective January 2008, IBEW Local 659, agreed with the Company to
8 change its retirement benefit approach to a 401(k) only program. This triggered a
9 small curtailment gain, which was recorded as an offset to existing pension
10 regulatory assets.

11 The second adjustment is a change to the measurement date for the pension and
12 other postretirement welfare plan liabilities. Due to a new financial accounting
13 standard, the annual measurement date for these liabilities is changing from
14 September 30 to December 31, PacifiCorp's calendar year end. Under previous
15 guidance, plan assets and obligations were allowed to be measured up to three
16 months prior to a company's fiscal year end.

17 **Pension Costs Accounting and Regulatory Treatment**

18 **Q. What is the financial impact of the requested changes in accounting?**

19 A. The net overall impact provided by Hewitt & Associates, the Company's pension
20 actuary, is a net pretax benefit to customers of \$27 million on a total Company
21 basis. The components of this amount are \$41 million for the curtailment gain
22 (Non-union and Local 659) netted by the measurement date change transition
23 adjustment of \$14 million. The Company is seeking a ten-year amortization for

1 this pretax net benefit.

2 **Q. What are current on-going pension expenses and other postretirement**
3 **welfare costs excluding these one-time adjustments for the Company?**

4 A. Please refer to Exhibit No. ___(SRM-2), Section A, which presents the 2008,
5 2009, 2010 and beyond estimated pension and other postretirement welfare
6 expenses. This provides the basis for comparing the accounting impacts with and
7 without regulatory approval of this application.

8 **Q. What is the financial impact of this requested change in accounting on the**
9 **on-going pension expense?**

10 A. Please refer to Exhibit No. ___(SRM-2), Section B, which shows the increased
11 pension expense and other postretirement welfare expense offset exactly by the
12 net reduction in regulatory asset over the analysis' time horizon. As shown on
13 line 7, the overall combined impact on pension and other postretirement welfare
14 expense, at the end of the ten year amortization period, is identical to the values in
15 Section A. There is a minor timing difference related to when the expenses occur
16 but the net impact is zero over the ten-year amortization period.

17 **Q. What would be the financial impact of the requested change in accounting if**
18 **it were not authorized?**

19 A. Please refer to Exhibit No. ___(SRM-2), Section C, which illustrates the financial
20 impact if these changes were not approved by the Commission. Section C, line
21 16, shows higher pension and other postretirement welfare expense values
22 incurred in the future. This increase is equal to the total value of the foregone net
23 reduction in regulatory asset reflected on line 6. As mentioned previously,

1 without Commission authorization the net benefit would be booked to the
2 Company's current year income and retained earnings and therefore unavailable
3 to be amortized in offsetting the higher future pension costs.

4 **Q. If adopted, over what period of time would you propose the net reduction in
5 regulatory asset be amortized to expense and thus flow through rates?**

6 A. The Company proposes that the net reduction in regulatory asset be amortized in a
7 manner that closely approximates the prior service amortizations that would have
8 continued if it were not for the accelerated recognition due to the curtailment.
9 This would result in an amortization period of approximately ten years. These
10 amortizations would be returned to customers in rates on a net basis as part of net
11 periodic benefit cost in those years.

12 **Q. When does the Company propose to record the adjustment?**

13 A. Based on information currently available, the Company will be recording the
14 curtailment gain in October 2008. The new accounting pronouncement requires
15 removal of the lag in measurement date for fiscal years ending after December 15,
16 2008; therefore, the Company is required to record the transitional adjustment in
17 December 2008.

18 **RECOMMENDATIONS**

19 **Q. Please summarize the Company's request.**

20 A. The Company requests that the Commission issue an order by December 31, 2008
21 authorizing the Company to make the following accounting adjustments:

- 22 • Record a net reduction in account 182.3 to offset the existing pension and
23 other postretirement welfare regulatory asset for the curtailment gain

1 triggered by the retirement choice program and Local 659 change, and
2 measurement date change transitional adjustment.

- 3 • Amortize the reduction in regulatory asset to expense over a ten-year
4 period with the opportunity to recover the amount in rates as part of net
5 periodic benefit cost. Rate treatment would be determined in a future rate
6 proceeding.

7 If authorized by the Commission, these adjustments would be made in lieu of
8 recognition of income to the benefit of the Company and a direct charge to
9 retained earnings as would otherwise be required by the new accounting
10 pronouncements. The Company requests approval by December 31, 2008 to be
11 able to align with the removal of the lag in measurement date.

12 **Q. Does this conclude your testimony?**

13 A. Yes.

| Section | | 2010 | | |
|-----------|---|---------|----------|---------------------------|
| | | 2007 | 2008 | 2009 Forward Total |
| A. | Accounting Excluding One-time Adjustments | | | |
| 1 | Total Pension and Postretirement Related Expenses | \$ 84.7 | \$ 53.3 | \$ 52.5 \$ 520.8 \$ 711.3 |
| B. | Deferred Accounting Approved | | | |
| 2 | Total Pension and Postretirement Related Expenses | \$ 84.7 | \$ 53.3 | \$ 62.4 \$ 537.7 \$ 738.0 |
| | Amortization of: | | | |
| 3 | Regulatory Asset (Measurement Date Change - \$13.773m) | | \$ 1.4 | \$ 12.4 \$ 13.8 |
| 4 | Contra Regulatory Asset (Choice Program Curtailment - \$38.656m) | | \$ (3.9) | \$ (34.8) \$ (38.7) |
| 5 | Contra Regulatory Asset (Local 659 Curtailment - \$1.863m) | | \$ (0.2) | \$ (1.7) \$ (1.9) |
| 6 | Net Contra Regulatory Asset (Total - \$26.746m) (10 year amortization) | | \$ (2.7) | \$ (24.1) \$ (26.7) |
| 7 | Revised Pension and Postretirement Related Expenses | \$ 84.7 | \$ 53.3 | \$ 59.7 \$ 513.6 \$ 711.3 |
| 8 | <u>Difference Deferred Actg vs. Actg Excluding One-time Adjustments</u> | \$ - | \$ - | \$ 7.2 \$ (7.2) \$ 0.0 |

| Section | | 2010 | | |
|-----------|--|---------|-----------|---------------------------|
| | | 2007 | 2008 | 2009 Forward Total |
| C. | Deferred Accounting Not Approved | | | |
| 9 | Total Pension and Postretirement Related Expenses | \$ 84.7 | \$ 53.3 | \$ 62.4 \$ 537.7 \$ 738.0 |
| 10 | Amortization of: | | | |
| | Net Contra Regulatory Asset Amortizations (10 Years) | \$ - | \$ - | \$ - \$ - \$ - |
| | One-time Adjustments which would be normalized out for rate filings: | | | |
| 11 | Measurement Date Change (retained earnings) | | \$ 13.8 | |
| 12 | Choice Program Curtailment (income) | | \$ (38.7) | |
| 13 | Local 659 Curtailment (income) | | \$ (1.9) | |
| 14 | Revised Pension and Postretirement Related Expenses | \$ 84.7 | \$ 26.6 | \$ 62.4 \$ 537.7 \$ 711.3 |
| 15 | Normalize one-time adjustments | | \$ 26.7 | \$ 26.7 |
| 16 | Revised Normalized Pension and Postretirement Related Expenses | \$ 84.7 | \$ 53.3 | \$ 62.4 \$ 537.7 \$ 738.0 |
| 17 | <u>Difference No Deferred Actg vs. Actg Excluding One-time Adjustments</u> | \$ - | \$ - | \$ 9.9 \$ 16.8 \$ 26.7 |

Note: Excludes SERP, includes L659 curtailment, assumes accounting for measurement date change prior to curtailment

Note: Non-electric amounts are included in baseline results prepared by Hewitt. These represent approximately \$6 million each year. The incremental changes reflect in the above results are only regulated amounts.

| Account Description | G/L Acct. | Func. Grp. | FERC Acct. |
|---|------------------|----------------|------------|
| Pension Expense | 501100, 4-5, 7-9 | A&GOPER | 9200000 |
| Postretirement Expense | 501150, 3-8 | A&GOPER | 9200000 |
| Pension Liability Account | 280355 | Below the Line | 2283500 |
| Postretirement Liability Account | 280455 | Below the Line | 2283400 |
| Pension Regulatory Asset Accounts | 187017, 18 | Below the Line | 1823870 |
| Postretirement Regulatory Asset Account | 187621 | Below the Line | 1823870 |