

PORTLAND GENERAL ELECTRIC CO /OR/  
Form 10-Q  
July 28, 2015  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the quarterly period ended June 30, 2015

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-5532-99

PORTLAND GENERAL ELECTRIC COMPANY  
(Exact name of registrant as specified in its charter)

Oregon  
(State or other jurisdiction of  
incorporation or organization)  
121 SW Salmon Street  
Portland, Oregon 97204  
(503) 464-8000

93-0256820  
(I.R.S. Employer  
Identification No.)

(Address of principal executive offices, including zip code,  
and registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

☒ Yes ☒ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐  
Yes ☒ No

Number of shares of common stock outstanding as of July 22, 2015 is 88,765,889 shares.

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PORTLAND GENERAL ELECTRIC COMPANY  
FORM 10-Q  
FOR THE QUARTERLY PERIOD ENDED June 30, 2015

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DEFINITIONS

The following abbreviations and acronyms are used throughout this document:

Abbreviation or Acronym	Definition
AFDC	Allowance for funds used during construction
AUT	Annual Power Cost Update Tariff
Biglow Canyon	Biglow Canyon Wind Farm
Carty	Carty Generating Station natural gas-fired generating plant
Colstrip	Colstrip Units 3 and 4 coal-fired generating plant
CWIP	Construction work-in-progress
EFSA	Equity forward sale agreement
EPA	United States Environmental Protection Agency
ESS	Electricity Service Supplier
FERC	Federal Energy Regulatory Commission
FMBs	First Mortgage Bonds
IRP	Integrated Resource Plan
kV	Kilovolt = one thousand volts of electricity
Moody's	Moody's Investors Service
MW	Megawatts
MW <sub>a</sub>	Average megawatts
MW <sub>h</sub>	Megawatt hours
NVPC	Net Variable Power Costs
OPUC	Public Utility Commission of Oregon
PCAM	Power Cost Adjustment Mechanism
PW1	Port Westward Unit 1 natural gas-fired generating plant
PW2	Port Westward Unit 2 natural gas-fired flexible capacity generating plant
S&P	Standard and Poor's Ratings Services
SEC	United States Securities and Exchange Commission
Tucannon River	Tucannon River Wind Farm
Trojan	Trojan nuclear power plant

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## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements.

PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 AND COMPREHENSIVE INCOME  
 (Dollars in millions, except per share amounts)  
 (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues, net	\$450	\$423	\$923	\$916
Operating expenses:				
Purchased power and fuel	148	142	309	326
Generation, transmission and distribution	66	67	128	121
Administrative and other	60	56	120	110
Depreciation and amortization	76	73	151	148
Taxes other than income taxes	28	27	58	55
Total operating expenses	378	365	766	760
Income from operations	72	58	157	156
Interest expense, net	28	23	58	48
Other income:				
Allowance for equity funds used during construction	5	9	9	15
Miscellaneous income, net	1	1	2	—
Other income, net	6	10	11	15
Income before income tax expense	50	45	110	123
Income tax expense	15	10	25	30
Net income and Comprehensive income	\$35	\$35	\$85	\$93
Weighted-average shares outstanding (in thousands):				
Basic	80,745	78,183	79,515	78,154
Diluted	80,745	80,051	79,515	79,742
Earnings per share:				
Basic	\$0.44	\$0.44	\$1.07	\$1.19
Diluted	\$0.44	\$0.43	\$1.07	\$1.16
Dividends declared per common share	\$0.300	\$0.280	\$0.580	\$0.555

See accompanying notes to condensed consolidated financial statements.

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PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)

(Unaudited)

	June 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$122	\$127
Accounts receivable, net	122	149
Unbilled revenues	87	93
Inventories	101	82
Regulatory assets—current	117	133
Other current assets	97	115
Total current assets	646	699
Electric utility plant, net	5,874	5,679
Regulatory assets—noncurrent	552	494
Nuclear decommissioning trust	40	90
Non-qualified benefit plan trust	35	32
Other noncurrent assets	51	48
Total assets	\$7,198	\$7,042

See accompanying notes to condensed consolidated financial statements.

Table of ContentsPORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS, continued

(In millions)

(Unaudited)

	June 30, 2015	December 31, 2014
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$125	\$156
Liabilities from price risk management activities—current	101	106
Current portion of long-term debt	55	375
Accrued expenses and other current liabilities	228	236
Total current liabilities	509	873
Long-term debt, net of current portion	2,204	2,126
Regulatory liabilities—noncurrent	923	906
Deferred income taxes	648	625
Unfunded status of pension and postretirement plans	243	237
Liabilities from price risk management activities—noncurrent	187	122
Asset retirement obligations	135	116
Non-qualified benefit plan liabilities	105	105
Other noncurrent liabilities	23	21
Total liabilities	4,977	5,131
Commitments and contingencies (see notes)		
Equity:		
Preferred stock, no par value, 30,000,000 shares authorized; none issued and outstanding as of June 30, 2015 and December 31, 2014	—	—
Common stock, no par value, 160,000,000 shares authorized; 88,765,629 and 78,228,339 shares issued and outstanding as of June 30, 2015 and December 31, 2014, respectively	1,191	918
Accumulated other comprehensive loss	(7	) (7
Retained earnings	1,037	1,000
Total equity	2,221	1,911
Total liabilities and equity	\$7,198	\$7,042

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Net income	\$85	\$93
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	151	148
Increase (decrease) in net liabilities from price risk management activities	63	(84)
Regulatory deferrals—price risk management activities	(63)	84
Deferred income taxes	22	20
Pension and other postretirement benefits	19	17
Allowance for equity funds used during construction	(9)	(15)
Regulatory deferral of settled derivative instruments	2	6
Other non-cash income and expenses, net	11	9
Changes in working capital:		
Decrease in accounts receivable and unbilled revenues	32	55
Increase in inventories	(19)	(20)
(Increase) decrease in margin deposits, net	(17)	7
Decrease in accounts payable and accrued liabilities	(22)	(29)
Other working capital items, net	7	6
Cash received to be returned to customers pursuant to the Residential Exchange Program	—	14
Other, net	(14)	(9)
Net cash provided by operating activities	248	302
Cash flows from investing activities:		
Capital expenditures	(313)	(501)
Distribution from Nuclear decommissioning trust	50	—
Sales tax refund received related to Tucannon River Wind Farm	23	—
Sales of Nuclear decommissioning trust securities	7	9
Purchases of Nuclear decommissioning trust securities	(7)	(10)
Proceeds from sale of property	—	4
Other, net	2	4
Net cash used in investing activities	(238)	(494)

See accompanying notes to condensed consolidated financial statements.

Cash flows from financing activities:		
Proceeds from issuance of common stock, net of issuance costs	\$271	\$—
Proceeds from issuance of long-term debt	145	225
Payments on long-term debt	(387)	—
Dividends paid	(44)	(43)
Net cash (used in) provided by financing activities	(15)	182
Decrease in cash and cash equivalents	(5)	(10)



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Cash and cash equivalents, beginning of period	127	107
Cash and cash equivalents, end of period	\$122	\$97

Supplemental cash flow information is as follows:

Cash paid for interest, net of amounts capitalized	\$56	\$45
Cash paid for income taxes	1	11
Non-cash investing and financing activities:		
Accrued capital additions	58	105
Accrued dividends payable	27	23

See accompanying notes to condensed consolidated financial statements.

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PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, continued  
(In millions)  
(Unaudited)

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PORTLAND GENERAL ELECTRIC COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1: BASIS OF PRESENTATION

Nature of Business

Portland General Electric Company (PGE or the Company) is a single, vertically integrated electric utility engaged in the generation, transmission, distribution, and retail sale of electricity in the state of Oregon. The Company also participates in the wholesale market by purchasing and selling electricity and natural gas in an effort to obtain reasonably-priced power for its retail customers. PGE operates as a single segment, with revenues and costs related to its business activities maintained and analyzed on a total electric operations basis. PGE's corporate headquarters are located in Portland, Oregon and its approximately 4,000 square mile, state-approved service area allocation is located entirely within the state of Oregon, encompassing 52 incorporated cities, of which Portland and Salem are the largest. As of June 30, 2015, PGE served 848,600 retail customers with a service area population of approximately 1.8 million, comprising approximately 46% of the state's population.

Condensed Consolidated Financial Statements

These condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission (SEC). Certain information and note disclosures normally included in financial statements prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted pursuant to such regulations, although PGE believes that the disclosures provided are adequate to make the interim information presented not misleading.

To conform with the 2015 presentation, PGE has separately presented Increase in inventories of \$20 million from Other working capital items, net and collapsed Decoupling mechanism deferrals, net of amortization of \$3 million into Other non-cash income and expenses, net in the operating activities section of the condensed consolidated statement of cash flows for the six months ended June 30, 2014.

The financial information included herein for the three and six month periods ended June 30, 2015 and 2014 is unaudited; however, such information reflects all adjustments, consisting of normal recurring adjustments, that are, in the opinion of management, necessary for a fair presentation of the condensed consolidated financial position, condensed consolidated statements of income and comprehensive income, and condensed consolidated cash flows of the Company for these interim periods. Certain costs are estimated for the full year and allocated to interim periods based on estimates of operating time expired, benefit received, or activity associated with the interim period; accordingly, such costs may not be reflective of amounts to be recognized for a full year. Due to seasonal fluctuations in electricity sales, as well as the price of wholesale energy and natural gas, interim financial results do not necessarily represent those to be expected for the year. The financial information as of December 31, 2014 is derived from the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2014, included in Item 8 of PGE's Annual Report on Form 10-K, filed with the SEC on February 13, 2015, which should be read in conjunction with such condensed consolidated financial statements.

Comprehensive Income

PGE had no material components of other comprehensive income to report for the three and six month periods ended June 30, 2015 and 2014.

Use of Estimates

The preparation of condensed consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of gain or loss contingencies, as of the date of the financial statements and the reported amounts of revenues and expenses

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PORTLAND GENERAL ELECTRIC COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

(Unaudited)

during the reporting period. Actual results experienced by the Company could differ materially from those estimates.

Recent Accounting Pronouncements

Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09), creates a new Topic 606 and supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. ASU 2014-09 provides a five-step analysis of transactions to determine when and how revenue is recognized that consists of: i) identify the contract with the customer; ii) identify the performance obligations in the contract; iii) determine the transaction price; iv) allocate the transaction price to the performance obligations; and v) recognize revenue when or as each performance obligation is satisfied. Companies can transition to the requirements of this ASU either retrospectively or as a cumulative-effect adjustment as of the date of adoption, which was originally January 1, 2017 for the Company. In June 2015, the Financial Accounting Standards Board (FASB) voted to defer the effective date by one year, with early adoption permitted as of the original effective date. The final ASU reflecting these changes is expected to be issued later this year. The Company is in the process of evaluating the impact to its consolidated financial position, consolidated results of operations, and consolidated cash flows of the adoption of ASU 2014-09.

In April 2015, the FASB issued ASU 2015-03, Interest—Imputation of Interest (Subtopic 835-30) (ASU 2015-03), which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The provisions of ASU 2015-03 are effective for fiscal years beginning after December 15, 2015, or January 1, 2016 for PGE, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued. The provisions should be applied on a retrospective basis. Upon transition, an entity is required to comply with the applicable disclosures for a change in an accounting principle, which includes: i) the nature of and reason for the change in accounting principle; ii) the transition method; iii) a description of the prior-period information that has been retrospectively adjusted; and iv) the effect of the change on the financial statement line items. The adoption of the provisions of ASU 2015-03 is not expected to have a material impact on PGE's consolidated financial position, consolidated results of operation, or consolidated cash flows.

In May 2015, the FASB issued ASU 2015-07, Fair Value Measurement (Topic 820), Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (ASU 2015-07), which removes the requirement to categorize within the fair value hierarchy investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Instead, such disclosures are restricted only to investments that the entity has decided to measure using the practical expedient. This standard is effective for interim and annual periods beginning after December 15, 2015. PGE will adopt the amendments contained in ASU 2015-07 on January 1, 2016, which is not expected to have an impact on the Company's consolidated financial position, consolidated results of operations, or consolidated cash flows.

In July 2015, the FASB issued ASU 2015-11, Inventory (Topic 330), Simplifying the Measurement of Inventory (ASU 2015-11), which changes the measurement principle for inventory from the lower of cost or market to lower of cost and net realizable value. Net realizable value is defined as the "estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation." ASU 2015-11 eliminates the guidance that entities consider replacement cost or net realizable value less an approximately normal profit margin in the subsequent measurement of inventory when cost is determined on a first-in, first-out or average cost basis. The provisions of ASU 2015-11 are effective for public entities with fiscal years beginning after December 15, 2016, or

January 1, 2017 for PGE, and interim periods within those fiscal years. Early adoption is

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## PORTLAND GENERAL ELECTRIC COMPANY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

(Unaudited)

permitted. The Company is in the process of evaluating the impact to its consolidated financial position, consolidated results of operations, and consolidated cash flows of the adoption of ASU 2015-11.

## NOTE 2: BALANCE SHEET COMPONENTS

## Accounts Receivable, Net

Accounts receivable is net of an allowance for uncollectible accounts of \$6 million as of June 30, 2015 and December 31, 2014.

The activity in the allowance for uncollectible accounts is as follows (in millions):

	Six Months Ended June 30,	
	2015	2014
Balance as of beginning of period	\$6	\$6
Provision, net	3	4
Amounts written off, less recoveries	(3	) (3
Balance as of end of period	\$6	\$7

## Inventories

PGE's inventories, which are recorded at average cost, consist primarily of materials and supplies for use in operations, maintenance, and capital activities and fuel for use in generating plants. Fuel inventories include natural gas, coal, and oil. Periodically, the Company assesses the realizability of inventory for purposes of determining that inventory is recorded at the lower of average cost or market. During the six months ended June 30, 2015, the Company's inventory balance increased largely as a result of contractual deliveries of coal exceeding usage due to plant maintenance and economic dispatch decisions.

## Other Current Assets

Other current assets consist of the following (in millions):

	June 30, 2015	December 31, 2014
Prepaid expenses	\$32	\$39
Current deferred income tax asset	33	33
Margin deposits	28	11
Accrued sales tax refund related to Tucannon River Wind Farm	—	23
Assets from price risk management activities	3	6
Other	1	3
Other current assets	\$97	\$115

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## PORTLAND GENERAL ELECTRIC COMPANY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

(Unaudited)

## Electric Utility Plant, Net

Electric utility plant, net consists of the following (in millions):

	June 30, 2015	December 31, 2014
Electric utility plant	\$8,301	\$8,161
Construction work-in-progress	557	417
Total cost	8,858	8,578
Less: accumulated depreciation and amortization	(2,984)	(2,899)
Electric utility plant, net	\$5,874	\$5,679

Accumulated depreciation and amortization in the table above includes accumulated amortization related to intangible assets of \$209 million and \$191 million as of June 30, 2015 and December 31, 2014, respectively. Amortization expense related to intangible assets was \$9 million and \$6 million for the three months ended June 30, 2015 and 2014, respectively, and \$18 million and \$12 million for the six months ended June 30, 2015 and 2014, respectively. The Company's intangible assets primarily consist of computer software development and hydro licensing costs.

## Regulatory Assets and Liabilities

Regulatory assets and liabilities consist of the following (in millions):

	June 30, 2015		December 31, 2014	
	Current	Noncurrent	Current	Noncurrent
Regulatory assets:				
Price risk management	\$98	\$186	\$100	\$121
Pension and other postretirement plans	—	237	—	247
Deferred income taxes	—	87	—	86
Debt issuance costs	—	17	—	15
Deferred capital projects	10	—	19	—
Other	9	25	14	25
Total regulatory assets	\$117	\$552	\$133	\$494
Regulatory liabilities:				
Asset retirement removal costs	\$—	\$824	\$—	\$804
Trojan decommissioning activities	21	24	23	34
Asset retirement obligations	—	42	—	39
Other	32	33	37	29
Total regulatory liabilities	\$53	* \$923	\$60	* \$906

\*Included in Accrued expenses and other current liabilities in the condensed consolidated balance sheets.



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## PORTLAND GENERAL ELECTRIC COMPANY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

(Unaudited)

## Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following (in millions):

	June 30, 2015	December 31, 2014
Regulatory liabilities—current	\$53	\$60
Accrued employee compensation and benefits	43	51
Accrued interest payable	25	26
Accrued dividends payable	27	23
Accrued taxes payable	21	22
Other	59	54
Total accrued expenses and other current liabilities	\$228	\$236

## Asset Retirement Obligations

Asset retirement obligations (AROs) consist of the following (in millions):

	June 30, 2015	December 31, 2014
Trojan decommissioning activities	\$43	\$41
Utility plant	81	64
Non-utility property	11	11
Asset retirement obligations	\$135	\$116

Utility plant represents AROs that have been recognized for the Company's thermal and wind generation sites and distribution and transmission assets where disposal is governed by environmental regulation.

The United States Environmental Protection Agency (EPA) published a final rule, effective October 19, 2015, that regulates Coal Combustion Residuals (CCRs) under the Resource Conservation and Recovery Act, Subtitle D. The new rule imposes extensive new requirements, including location restrictions, design and operating standards, groundwater monitoring and corrective action requirements, and closure and post-closure care requirements on CCR impoundments and landfills that are located on active power plants and not closed. The rule's requirements for covered CCR impoundments and landfills include commencement or completion of closure activities generally between three and ten years from certain triggering events.

Based on a preliminary evaluation, the Company believes the rule will not have a material effect on operations at Boardman, which produce dry CCRs. Disposal of the dry CCRs occurs at an on-site landfill that is currently permitted and regulated by the State of Oregon under requirements similar to the new CCR rule.

Colstrip utilizes wet scrubbers and a number of settlement ponds that will require upgrading or closure to meet the new regulatory requirements. The operator of Colstrip has provided an initial cost estimate related to the impacts of the new CCR rule. As a result, during the second quarter of 2015, the Company recorded an increase to the existing Colstrip AROs in the amount of \$15 million, with a corresponding increase in the cost basis of the plant, included in Electric utility plant, net on the consolidated balance sheet. PGE plans to seek recovery in customer prices of the incremental costs associated with the new rule.



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PORTLAND GENERAL ELECTRIC COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

(Unaudited)

Credit Facilities

During the first quarter of 2015, PGE determined that a \$500 million aggregate revolving credit facility capacity would be sufficient to meet its liquidity needs and accordingly, in March 2015, reduced its aggregate revolving credit capacity from \$700 million to \$500 million. As of June 30, 2015, PGE has a \$500 million revolving credit facility, which is scheduled to expire in November 2019.

Pursuant to the terms of the agreement, the revolving credit facility may be used for general corporate purposes and as backup for commercial paper borrowings, and also permit the issuance of standby letters of credit. PGE may borrow for one, two, three, or six months at a fixed interest rate established at the time of the borrowing, or at a variable interest rate for any period up to the then remaining term of the credit facility. The revolving credit facility contains provisions for two, one-year extensions subject to approval by the banks, requires annual fees based on PGE's unsecured credit ratings, and contains customary covenants and default provisions, including a requirement that limits consolidated indebtedness, as defined in the agreement, to 65% of total capitalization. As of June 30, 2015, PGE was in compliance with this covenant with a 50.4% debt-to-total capital ratio.

PGE classifies any borrowings under the revolving credit facility and outstanding commercial paper as Short-term debt on the condensed consolidated balance sheets. As of June 30, 2015, PGE had no borrowings or commercial paper outstanding, \$38 million of letters of credit issued, and an aggregate available capacity under the credit facility of \$462 million.

In addition, PGE has two \$30 million letter of credit facilities, under which the Company can request letters of credit for original terms not to exceed one year. The issuance of such letters of credit is subject to the approval of the issuing institution. As of June 30, 2015, \$59 million of letters of credit had been issued under these facilities.

The Company has a commercial paper program under which it may issue commercial paper for terms of up to 270 days, limited to the unused amount of credit under the revolving credit facility.

Pursuant to an order issued by the Federal Energy Regulatory Commission (FERC), the Company is authorized to issue short-term debt up to \$900 million through February 6, 2016. The authorization provides that if utility assets financed by unsecured debt are divested, then a proportionate share of the unsecured debt must also be divested.

Long-term Debt

During the six months ended June 30, 2015, PGE had the following long-term debt transactions:

In June, repaid \$200 million of long-term bank loans;

In May, issued \$70 million of 3.50% Series First Mortgage Bonds (FMBs) due 2035 and repaid \$67 million of 6.80% Series FMBs, due January 2016;

In February, repaid \$50 million of long-term bank loans; and

In January, issued \$75 million of 3.55% Series FMBs due 2030 and repaid \$70 million of 3.46% Series FMBs.

On July 10, 2015, the Company repaid the remaining outstanding balance of long-term bank loans in the amount of \$55 million.

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## PORTLAND GENERAL ELECTRIC COMPANY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

(Unaudited)

## Pension and Other Postretirement Benefits

Components of net periodic benefit cost are as follows (in millions):

	Defined Benefit Pension Plan		Other Postretirement Benefits		Non-Qualified Benefit Plans	
	2015	2014	2015	2014	2015	2014
Three Months Ended June 30:						
Service cost	\$5	\$3	\$1	\$1	\$—	\$—
Interest cost	8	8	1	1	1	1
Expected return on plan assets	(10 )	(10 )	(1 )	(1 )	—	—
Amortization of prior service cost	—	—	—	1	—	—
Amortization of net actuarial loss	5	5	—	—	—	—
Net periodic benefit cost	\$8	\$6	\$1	\$2	\$1	\$1
Six Months Ended June 30:						
Service cost	\$9	\$7	\$2	\$1	\$—	\$—
Interest cost	16	17	2	2	1	1
Expected return on plan assets	(20 )	(20 )	(1 )	(1 )	—	—
Amortization of prior service cost	—	—	—	1	—	—
Amortization of net actuarial loss	10	9	—	—	—	—
Net periodic benefit cost	\$15	\$13	\$3	\$3	\$1	\$1

## NOTE 3: FAIR VALUE OF FINANCIAL INSTRUMENTS

PGE determines the fair value of financial instruments, both assets and liabilities recognized and not recognized in the Company's condensed consolidated balance sheets, for which it is practicable to estimate fair value as of June 30, 2015 and December 31, 2014, and then classifies these financial assets and liabilities based on a fair value hierarchy. The fair value hierarchy is used to prioritize the inputs to the valuation techniques used to measure fair value. These three levels and application to the Company are discussed below.

Level 1 Quoted prices are available in active markets for identical assets or liabilities as of the reporting date.

Level 2 Pricing inputs include those that are directly or indirectly observable in the marketplace as of the reporting date.

Level 3 Pricing inputs include significant inputs that are unobservable for the asset or liability.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy.

PGE recognizes transfers between levels in the fair value hierarchy as of the end of the reporting period for all its financial instruments. Changes to market liquidity conditions, the availability of observable inputs, or changes in the economic structure of a security marketplace may require transfer of the securities between levels. There were no significant transfers between levels during the three and six month periods ended June 30, 2015 and 2014, except those transfers from Level 3 to Level 2 presented in this note.



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## PORTLAND GENERAL ELECTRIC COMPANY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

(Unaudited)

The Company's financial assets and liabilities whose values were recognized at fair value are as follows by level within the fair value hierarchy (in millions):

	As of June 30, 2015			
	Level 1	Level 2	Level 3	Total
Assets:				
Nuclear decommissioning trust: <sup>(1)</sup>				
Money market funds	\$—	\$16	\$—	\$16
Debt securities:				
Domestic government	4	9	—	13
Corporate credit	—	11	—	11
Non-qualified benefit plan trust: <sup>(2)</sup>				
Equity securities—domestic	5	2	—	7
Debt securities—domestic government	1	—	—	1
Assets from price risk management activities: <sup>(1) (3)</sup>				
Electricity	—	3	1	4
Natural gas	—	—	—	—
	\$10	\$41	\$1	\$52
Liabilities—Liabilities from price risk management activities: <sup>(1) (3)</sup>				
Electricity	\$—	\$20	\$132	\$152
Natural gas	—	99	37	136
	\$—	\$119	\$169	\$288

(1) Activities are subject to regulation, with certain gains and losses deferred pursuant to regulatory accounting and included in Regulatory assets or Regulatory liabilities as appropriate.

(2) Excludes insurance policies of \$27 million, which are recorded at cash surrender value.

(3) For further information, see Note 4, Price Risk Management.

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## PORTLAND GENERAL ELECTRIC COMPANY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

(Unaudited)

	As of December 31, 2014			
	Level 1	Level 2	Level 3	Total
Assets:				
Nuclear decommissioning trust: <sup>(1)</sup>				
Money market funds	\$—	\$65	\$—	\$65
Debt securities:				
Domestic government	7	7	—	14
Corporate credit	—	11	—	11
Non-qualified benefit plan trust: <sup>(2)</sup>				
Equity securities:				
Domestic	4	1	—	5
International	1	—	—	1
Assets from price risk management activities: <sup>(1) (3)</sup>				
Electricity	—	4	1	5
Natural gas	—	2	—	2
	\$12	\$90	\$1	\$103
Liabilities—Liabilities from price risk management activities: <sup>(1) (3)</sup>				
Electricity	\$—	\$32	\$80	\$112
Natural gas	—	95	21	116
	\$—	\$127	\$101	\$228

(1) Activities are subject to regulation, with certain gains and losses deferred pursuant to regulatory accounting and included in Regulatory assets or Regulatory liabilities as appropriate.

(2) Excludes insurance policies of \$26 million, which are recorded at cash surrender value.

(3) For further information, see Note 4, Price Risk Management.

Trust assets held in the Nuclear decommissioning and Non-qualified benefit plan trusts are recorded at fair value in PGE's condensed consolidated balance sheets and invested in securities that are exposed to interest rate, credit and market volatility risks. These assets are classified within Level 1, 2 or 3 based on the following factors:

Money market funds—PGE invests in money market funds that seek to maintain a stable net asset value. These funds invest in high-quality, short-term, diversified money market instruments, short-term treasury bills, federal agency securities, certificates of deposits, and commercial paper. Money market funds are classified as Level 2 in the fair value hierarchy as the securities are traded in active markets of similar securities but are not directly valued using quoted market prices.

Debt securities—PGE invests in highly-liquid United States treasury securities to support the investment objectives of the trusts. These domestic government securities are classified as Level 1 in the fair value hierarchy due to the availability of quoted prices for identical assets in an active market as of the reporting date.

Assets classified as Level 2 in the fair value hierarchy include domestic government debt securities, such as municipal debt, and corporate credit securities. Prices are determined by evaluating pricing data such as broker quotes for similar securities and adjusted for observable differences. Significant inputs used in valuation models generally include benchmark yield and issuer spreads. The external credit rating, coupon rate, and maturity of each security are considered in the valuation as applicable.





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PORTLAND GENERAL ELECTRIC COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

(Unaudited)

Equity securities—Equity mutual fund and common stock securities are primarily classified as Level 1 in the fair value hierarchy due to the availability of quoted prices for identical assets in an active market as of the reporting date. Principal markets for equity prices include published exchanges such as NASDAQ and the New York Stock Exchange. Certain mutual fund assets included in commingled trusts or separately managed accounts are classified as Level 2 in the fair value hierarchy as pricing inputs are directly or indirectly observable in the marketplace.

Assets and liabilities from price risk management activities are recorded at fair value in PGE's condensed consolidated balance sheets and consist of derivative instruments entered into by the Company to manage its exposure to commodity price risk and foreign currency exchange rate risk, and reduce volatility in net variable power costs (NVPC) for the Company's retail customers. For additional information regarding these assets and liabilities, see Note 4, Price Risk Management.

For those assets and liabilities from price risk management activities classified as Level 2, fair value is derived using present value formulas that utilize inputs such as forward commodity prices and interest rates. Substantially all of these inputs are observable in the marketplace throughout the full term of the instrument, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace. Instruments in this category include commodity forwards, futures and swaps.

Assets and liabilities from price risk management activities classified as Level 3 consist of instruments for which fair value is derived using one or more significant inputs that are not observable for the entire term of the instrument. These instruments consist of longer term commodity forwards, futures and swaps.

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## PORTLAND GENERAL ELECTRIC COMPANY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

(Unaudited)

Quantitative information regarding the significant, unobservable inputs used in the measurement of Level 3 assets and liabilities from price risk management activities is presented below:

Commodity Contracts	Fair Value		Valuation Technique	Significant Unobservable Input	Price per Unit		Weighted Average
	Assets	Liabilities			Low	High	
(in millions)							
As of June 30, 2015:							
Electricity physical forward	\$—	\$131	Discounted cash flow	Electricity forward price (per MWh)	\$12.97	\$66.27	\$31.43
Natural gas financial swaps	—	37	Discounted cash flow	Natural gas forward price (per Decatherm)	2.40	4.33	2.90
Electricity financial futures	1	1	Discounted cash flow	Electricity forward price (per MWh)	21.35	37.90	30.56
	\$1	\$169					
As of December 31, 2014:							
Electricity physical forward	\$—	\$77	Discounted cash flow	Electricity forward price (per MWh)	\$11.97	\$122.72	\$37.43
Natural gas financial swaps	—	21	Discounted cash flow	Natural gas forward price (per Decatherm)	2.88	4.86	