PORTLAND GENERAL ELECTRIC CO /OR/
Form 10-Q
October 27, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 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	93-0256820
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

121 SW Salmon Street
Portland, Oregon 97204
(503) 464-8000
(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. [x] 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).
[x] Yes x [ ] 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 [x] 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 [x] No

Number of shares of common stock outstanding as of October 16, 2015 is 88,772,420 shares.

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PORTLAND GENERAL ELECTRIC COMPANY
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED September 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
GRC	General Rate Case
IRP	Integrated Resource Plan
Moody’s	Moody’s Investors Service
MW	Megawatts
MWa	Average megawatts
MWh	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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues, net	$476	$484	$1,399	$1,400
Operating expenses:				
Purchased power and fuel	181	202	490	528
Generation, transmission and distribution	64	60	192	181
Administrative and other	59	54	179	164
Depreciation and amortization	76	76	227	224
Taxes other than income taxes	28	27	86	82
Total operating expenses	408	419	1,174	1,179
Income from operations	68	65	225	221
Interest expense, net	28	23	86	71
Other income:				
Allowance for equity funds used during construction	6	11	15	26
Miscellaneous income (expense), net	(2)	1	—	1
Other income, net	4	12	15	27
Income before income tax expense	44	54	154	177
Income tax expense	8	16	33	46
Net income and Comprehensive income	36	38	121	131
Less: net loss attributable to noncontrolling interests	—	(1)	—	(1)
Net income and Comprehensive income attributable to Portland General Electric Company	$36	$39	$121	$132
Weighted-average shares outstanding (in thousands):				
Basic	88,766	78,203	82,633	78,170
Diluted	88,766	80,225	82,633	79,977
Earnings per share:				
Basic	$0.40	$0.48	$1.47	$1.67
Diluted	$0.40	$0.47	$1.47	$1.63
Dividends declared per common share	$0.300	$0.280	$0.880	$0.835

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)

	September 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$92	$127
Accounts receivable, net	133	149
Unbilled revenues	72	93
Inventories	94	82
Regulatory assets—current	122	133
Other current assets	92	115
Total current assets	605	699
Electric utility plant, net	5,920	5,679
Regulatory assets—noncurrent	547	494
Nuclear decommissioning trust	40	90
Non-qualified benefit plan trust	33	32
Other noncurrent assets	52	48
Total assets	$7,197	$7,042

See accompanying notes to condensed consolidated financial statements.

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PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS, continued
(In millions)
(Unaudited)

	September 30, 2015	December 31, 2014
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$96	$156
Liabilities from price risk management activities—current	115	106
Current portion of long-term debt	—	375
Accrued expenses and other current liabilities	254	236
Total current liabilities	465	873
Long-term debt, net of current portion	2,204	2,126
Regulatory liabilities—noncurrent	939	906
Deferred income taxes	664	625
Unfunded status of pension and postretirement plans	246	237
Liabilities from price risk management activities—noncurrent	184	122
Asset retirement obligations	137	116
Non-qualified benefit plan liabilities	105	105
Other noncurrent liabilities	21	21
Total liabilities	4,965	5,131
Commitments and contingencies (see notes)		
Equity:		
Preferred stock, no par value, 30,000,000 shares authorized; none issued and outstanding as of September 30, 2015 and December 31, 2014	—	—
Common stock, no par value, 160,000,000 shares authorized; 88,772,172 and 78,228,339 shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively	1,193	918
Accumulated other comprehensive loss	(7)	(7)
Retained earnings	1,046	1,000
Total equity	2,232	1,911
Total liabilities and equity	$7,197	$7,042

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,			
	2015		2014	
Cash flows from operating activities:				
Net income	$121		$131	
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	227		224	
Increase (decrease) in net liabilities from price risk management activities	71		(60	)
Regulatory deferrals—price risk management activities	(71	)	60	
Deferred income taxes	31		31	
Pension and other postretirement benefits	25		25	
Allowance for equity funds used during construction	(15	)	(26	)
Regulatory deferral of settled derivative instruments	—		9	
Decoupling mechanism deferrals, net of amortization	10		4	
Other non-cash income and expenses, net	19		18	
Changes in working capital:				
Decrease in accounts receivable and unbilled revenues	37		32	
Increase in inventories	(12	)	(18	)
(Increase) decrease in margin deposits, net	(9	)	4	
Increase in accounts payable and accrued liabilities	13		18	
Other working capital items, net	15		16	
Cash (paid) received pursuant to the Residential Exchange Program	(3	)	13	
Proceeds received from Trojan spent fuel legal settlement	—		6	
Other, net	(20	)	(14	)
Net cash provided by operating activities	439		473	
Cash flows from investing activities:				
Capital expenditures	(452	)	(824	)
Distribution from (contribution to) Nuclear decommissioning trust	50		(6	)
Sales tax refund received related to Tucannon River Wind Farm	23		—	
Sales of Nuclear decommissioning trust securities	11		13	
Purchases of Nuclear decommissioning trust securities	(10	)	(15	)
Proceeds received from insurance recovery	—		3	
Proceeds from sale of property	—		4	
Other, net	1		4	
Net cash used in investing activities	(377	)	(821	)

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)

	Nine Months Ended September 30, 2015	2014
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of issuance costs	$271	$—
Proceeds from issuance of long-term debt	145	405
Payments on long-term debt	(442)	—
Dividends paid	(70)	(66)
Debt issuance costs	(1)	(1)
Net cash (used in) provided by financing activities	(97)	338
Decrease in cash and cash equivalents	(35)	(10)
Cash and cash equivalents, beginning of period	127	107
Cash and cash equivalents, end of period	$92	$97
Supplemental cash flow information is as follows:		
Cash paid for interest, net of amounts capitalized	$67	$52
Cash paid for income taxes	3	16
Non-cash investing and financing activities:		
Accrued capital additions	25	76
Accrued dividends payable	28	23

See accompanying notes to condensed consolidated financial statements.

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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 September 30, 2015, PGE served 851,650 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 $18 million from Other working capital items, net in the operating activities section of the condensed consolidated statement of cash flows for the nine months ended September 30, 2014.

The financial information included herein for the three and nine month periods ended September 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 income and comprehensive income, and condensed consolidated cash flows of the Company for these interim periods. 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 nine month periods ended September 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 during the reporting period. Actual results experienced by the Company could differ materially from those estimates.

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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.

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 August 2015, the Financial Accounting Standards Board (FASB) issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date (ASU 2014-14) that defers the effective date by one year, although it permits early adoption as of the original effective date. 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. In August 2015, the FASB issued ASU 2015-15, Interest—Imputation of Interest (Subtopic 835-30): Presentation of Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements-Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting (SEC Update) (ASU 2015-15), which clarifies that the SEC staff would “not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of credit arrangement” given the lack of guidance on this topic in ASU 2015-03. The adoption of the provisions of ASU 2015-03 and ASU 2015-15 are 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

PORTLAND GENERAL ELECTRIC COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued
(Unaudited)

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 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

Inventories

PGE's inventories, which are recorded at average cost, consist primarily of materials and supplies for use in operations, maintenance, and capital activities as well as 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 nine months ended September 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):

	September 30, 2015	December 31, 2014
Prepaid expenses	$24	$39
Current deferred income tax asset	39	33
Margin deposits	20	11
Accrued sales tax refund related to Tucannon River Wind Farm	—	23
Assets from price risk management activities	7	6
Other	2	3
Other current assets	$92	$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):

	September 30, 2015	December 31, 2014
Electric utility plant	$8,458	$8,161
Construction work-in-progress	508	417
Total cost	8,966	8,578
Less: accumulated depreciation and amortization	(3,046)	(2,899)
Electric utility plant, net	$5,920	$5,679

Accumulated depreciation and amortization in the table above includes accumulated amortization related to intangible assets of $219 million and $191 million as of September 30, 2015 and December 31, 2014, respectively. Amortization expense related to intangible assets was $10 million and $6 million for the three months ended September 30, 2015 and 2014, respectively, and $28 million and $18 million for the nine months ended September 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):

	September 30, 2015		December 31, 2014	
	Current	Noncurrent	Current	Noncurrent
Regulatory assets:				
Price risk management	$108	$184	$100	$121
Pension and other postretirement plans	—	232	—	247
Deferred income taxes	—	87	—	86
Debt issuance costs	—	17	—	15
Deferred capital projects	5	—	19	—
Other	9	27	14	25
Total regulatory assets	$122	$547	$133	$494
Regulatory liabilities:				
Asset retirement removal costs	$—	$833	$—	$804
Trojan decommissioning activities	19	21	23	34
Asset retirement obligations	—	44	—	39
Other	26	41	37	29
Total regulatory liabilities	$45 *	$939	$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):

	September 30, 2015	December 31, 2014
Regulatory liabilities—current	$45	$60
Accrued employee compensation and benefits	44	51
Accrued interest payable	40	26
Accrued dividends payable	28	23
Accrued taxes payable	40	22
Other	57	54
Total accrued expenses and other current liabilities	$254	$236

Asset Retirement Obligations

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

	September 30, 2015	December 31, 2014
Trojan decommissioning activities	$43	$41
Utility plant	83	64
Non-utility property	11	11
Asset retirement obligations	$137	$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 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.

The Boardman coal-fired generating plant (Boardman) produces dry CCRs as a by-product. Disposal of the dry CCRs has historically occurred at an on-site landfill that is permitted and regulated by the State of Oregon under requirements similar to the new EPA rule. PGE is evaluating its disposal strategy, however the Company believes the new EPA rule will not have a material effect on operations at Boardman.

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 EPA 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 EPA rule.

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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 reduced its aggregate revolving credit capacity from $700 million to $500 million. As of September 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 permits 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 September 30, 2015, PGE was in compliance with this covenant with a 49.7% debt-to-total capital ratio.

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.

PGE classifies any borrowings under the revolving credit facility and outstanding commercial paper as Short-term debt on the condensed consolidated balance sheets. Under the credit facility, as of September 30, 2015, PGE had no borrowings or commercial paper outstanding, $3 million of letters of credit issued, and an aggregate available capacity under the credit facility of $497 million.

In addition, PGE has four letter of credit facilities providing $135 million capacity 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. Under these four facilities, $93 million of letters of credit were outstanding, as of September 30, 2015.

Pursuant to an order issued by the Federal Energy Regulatory Commission (FERC), the Company is authorized to issue short-term debt in an aggregate amount of 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. In September 2015, PGE filed an application with the FERC to extend the authorization for two additional years. An order from the FERC is expected by year end.

Long-term Debt

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

- In July, repaid $55 million of long-term bank loans;

- 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.

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PORTLAND GENERAL ELECTRIC COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued
(Unaudited)

Defined Benefit Pension Plan Costs

Components of net periodic benefit cost under the defined benefit pension plan are as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Service cost	$4	$4	$13	$11
Interest cost	8	8	24	25
Expected return on plan assets	(10)	(9)	(30)	(29)
Amortization of net actuarial loss	5	4	15	13
Net periodic benefit cost	$7	$7	$22	$20

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 September 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 utilized to prioritize the inputs to the valuation techniques used to measure fair value. The three levels of the fair value hierarchy 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 nine month periods ended September 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 September 30, 2015			
	Level 1	Level 2	Level 3	Total
Assets:				
Nuclear decommissioning trust: (1)				
Money market funds	$—	$17	$—	$17
Debt securities:				
Domestic government	5	8	—	13
Corporate credit	—	10	—	10
Non-qualified benefit plan trust: (2)				
Equity securities—domestic	4	2	—	6
Debt securities—domestic government	1	—	—	1
Assets from price risk management activities: (1) (3)				
Electricity	—	5	—	5
Natural gas	—	2	—	2
	$10	$44	$—	$54
Liabilities from price risk management activities: (1) (3)				
Electricity	$—	$31	$117	$148
Natural gas	—	99	52	151
	$—	$130	$169	$299

(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.

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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: (1)				
Money market funds	$—	$65	$—	$65
Debt securities:				
Domestic government	7	7	—	14
Corporate credit	—	11	—	11
Non-qualified benefit plan trust: (2)				
Equity securities:				
Domestic	4	1	—	5
International	1	—	—	1
Assets from price risk management activities: (1) (3)				
Electricity	—	4	1	5
Natural gas	—	2	—	2
	$12	$90	$1	$103
Liabilities from price risk management activities: (1) (3)				
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 yields 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 the 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 because 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.

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 September 30, 2015:							
Electricity physical forward	$—	$117	Discounted cash flow	Electricity forward price (per MWh)	$11.00	$71.77	$29.82
Natural gas financial swaps							