PORTLAND GENERAL ELECTRIC CO /OR/
Form 10-Q
October 28, 2014
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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, 2014

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 23, 2014 is 78,209,672 shares.

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PORTLAND GENERAL ELECTRIC COMPANY
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2014

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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
MWa	Average megawatts
MWh	Megawatt hours
NVPC	Net Variable Power Costs
OPUC	Public Utility Commission of Oregon
PCAM	Power Cost Adjustment Mechanism
PW2	Port Westward Unit 2 natural gas-fired 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,	
	2014	2013	2014	2013
Revenues, net	$484	$435	$1,400	$1,311
Operating expenses:				
Purchased power and fuel	202	190	528	538
Production and distribution	60	54	181	169
Cascade Crossing transmission project	—	—	—	52
Administrative and other	54	49	164	158
Depreciation and amortization	76	62	224	186
Taxes other than income taxes	27	27	82	79
Total operating expenses	419	382	1,179	1,182
Income from operations	65	53	221	129
Interest expense	23	25	71	75
Other income:				
Allowance for equity funds used during construction	11	4	26	8
Miscellaneous income, net	1	3	1	5
Other income, net	12	7	27	13
Income before income tax expense	54	35	177	67
Income tax expense	16	4	46	10
Net income and Comprehensive income	38	31	131	57
Less: net loss attributable to noncontrolling interests	(1)	—	(1)	(1)
Net income and Comprehensive income attributable to Portland General Electric Company	$39	$31	$132	$58
Weighted-average shares outstanding (in thousands):				
Basic	78,203	77,637	78,170	76,401
Diluted	80,225	78,330	79,977	76,703
Earnings per share:				
Basic	$0.48	$0.40	$1.67	$0.76
Diluted	$0.47	$0.40	$1.63	$0.76
Dividends declared per common share	$0.280	$0.275	$0.835	$0.820

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, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$97	$107
Accounts receivable, net	156	146
Unbilled revenues	73	104
Inventories	84	65
Regulatory assets—current	56	66
Other current assets	76	103
Total current assets	542	591
Electric utility plant, net	5,553	4,880
Regulatory assets—noncurrent	396	464
Nuclear decommissioning trust	89	82
Non-qualified benefit plan trust	33	35
Other noncurrent assets	44	49
Total assets	$6,657	$6,101

See accompanying notes to condensed consolidated financial statements.

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

	September 30, 2014	December 31, 2013
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$157	$173
Liabilities from price risk management activities—current	44	49
Current portion of long-term debt	70	—
Accrued expenses and other current liabilities	211	171
Total current liabilities	482	393
Long-term debt, net of current portion	2,251	1,916
Regulatory liabilities—noncurrent	940	865
Deferred income taxes	626	586
Unfunded status of pension and postretirement plans	163	154
Asset retirement obligations	107	100
Non-qualified benefit plan liabilities	101	101
Liabilities from price risk management activities—noncurrent	78	141
Other noncurrent liabilities	20	25
Total liabilities	4,768	4,281
Commitments and contingencies (see notes)		
Equity:		
Portland General Electric Company shareholders' equity:		
Preferred stock, no par value, 30,000,000 shares authorized; none issued and outstanding as of September 30, 2014 and December 31, 2013	—	—
Common stock, no par value, 160,000,000 shares authorized; 78,209,428 and 78,085,559 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively	916	911
Accumulated other comprehensive loss	(5)	(5)
Retained earnings	978	913
Total Portland General Electric Company shareholders' equity	1,889	1,819
Noncontrolling interests' equity	—	1
Total equity	1,889	1,820
Total liabilities and equity	$6,657	$6,101

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,	
	2014	2013
Cash flows from operating activities:		
Net income	$131	$57
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	224	186
Cascade Crossing transmission project	—	52
Decrease in net liabilities from price risk management activities	(60)	(35)
Regulatory deferrals—price risk management activities	60	35
Deferred income taxes	31	(2)
Pension and other postretirement benefits	25	28
Allowance for equity funds used during construction	(26)	(8)
Regulatory deferral of settled derivative instruments	9	13
Decoupling mechanism deferrals, net of amortization	4	(5)
Other non-cash income and expenses, net	18	14
Changes in working capital:		
Decrease in accounts receivable and unbilled revenues	32	47
Decrease in margin deposits, net	4	10
Increase in accounts payable and accrued liabilities	18	13
Other working capital items, net	(2)	24
Cash received to be returned to customers pursuant to the Residential Exchange Program	13	—
Proceeds received from Trojan spent fuel legal settlement	6	44
Other, net	(14)	(14)
Net cash provided by operating activities	473	459
Cash flows from investing activities:		
Capital expenditures	(824)	(453)
Contribution to nuclear decommissioning trust	(6)	(44)
Sales of nuclear decommissioning trust securities	13	20
Purchases of nuclear decommissioning trust securities	(15)	(21)
Proceeds received from insurance recovery	3	3
Proceeds from sale of property	4	—
Other, net	4	4
Net cash used in investing activities	(821)	(491)

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,	
	2014	2013
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	$405	$225
Payments on long-term debt	—	(100)
Proceeds from issuance of common stock, net of issuance costs	—	67
Borrowings on short-term debt	—	35
Payments on short-term debt	—	(35)
Maturities of commercial paper, net	—	(17)
Dividends paid	(66)	(62)
Debt issuance costs	(1)	(2)
Net cash provided by financing activities	338	111
Change in cash and cash equivalents	(10)	79
Cash and cash equivalents, beginning of period	107	12
Cash and cash equivalents, end of period	$97	$91
Supplemental cash flow information is as follows:		
Cash paid for interest, net of amounts capitalized	$52	$57
Cash paid for income taxes	16	9
Non-cash investing and financing activities:		
Accrued capital additions	76	23
Accrued dividends payable	23	22
Preliminary engineering costs transferred to Construction work-in-progress from Other noncurrent assets	—	9

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, 2014, PGE served 843,110 retail customers with a service area population of approximately 1.7 million, comprising approximately 44% 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 2014 presentation, PGE has reclassified Margin deposits of $9 million with Other current assets in the condensed consolidated balance sheet as of December 31, 2013. In addition, the Company has reclassified Power cost deferrals, net of amortization of $4 million to Other non-cash income and expenses, net in the operating activities section of the condensed consolidated statement of cash flows for the nine months ended September 30, 2013.

The financial information included herein for the three and nine month periods ended September 30, 2014 and 2013 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, 2013 is derived from the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2013, included in Item 8 of PGE's Annual Report on Form 10-K, filed with the SEC on February 14, 2014, 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, 2014 and 2013.

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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.

Customer Billing Matter

In May 2013, PGE discovered that it had over-billed an industrial customer during a period of several years as a result of a meter configuration error. An analysis of the data determined that the Company's revenues were overstated by approximately $3 million in 2012 and in 2011, $2 million in 2010, and $1 million in 2009. PGE believes the customer billing error is not material to any annual reporting period. The Company corrected this matter in the second quarter of 2013 as an out of period adjustment, and recorded, as a reduction to Revenues, net, a refund to the customer in the amount of $9 million.

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 is January 1, 2017 for the Company, with early adoption prohibited. The impact on the Company's consolidated financial position, consolidated results of operations, or consolidated cash flows of the adoption of ASU 2014-09 is not known at this time.

ASU 2014-15, Disclosure of Uncertainties about an Entity's Going Concern Presumption (Topic 205) (ASU 2014-15), requires entities to perform a going concern assessment at each annual and interim reporting period by evaluating their ability to meet their financial obligations for a look-forward period of one year from the financial issuance date, or the date the financial statements are available to be issued. Disclosure is required if it is probable an entity will be unable to meet its obligations within the look-forward period, with incremental substantial doubt disclosure required if the probability is not mitigated by management's plans. The provisions of ASU 2014-15 are effective for annual periods ending after December 15, 2016, or December 31, 2016 for PGE, and interim periods in fiscal years beginning after December 15, 2016, or January 1, 2017 for the Company. Early adoption is permitted. The adoption of the provisions of ASU 2014-15 is not expected to have a material impact on PGE's consolidated financial position, consolidated results of operations, or consolidated cash flows.

NOTE 2: BALANCE SHEET COMPONENTS

Accounts Receivable, Net

Accounts receivable is net of an allowance for uncollectible accounts of $6 million as of September 30, 2014 and December 31, 2013.

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

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

	Nine Months Ended September 30,	
	2014	2013
Balance as of beginning of period	$6	$5
Provision, net	5	4
Amounts written off, less recoveries	(5)	(4)
Balance as of end of period	$6	$5

Inventories

PGE 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. The Company assesses the realizability of inventory for purposes of determining that inventory is recorded at the lower of average cost or market.

Other Current Assets

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

	September 30, 2014	December 31, 2013
Current deferred income tax asset	$41	$42
Prepaid expenses	25	38
Assets from price risk management activities	4	13
Margin deposits	5	9
Other	1	1
Other current assets	$76	$103

Electric Utility Plant, Net

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

	September 30, 2014	December 31, 2013
Electric utility plant	$7,277	$7,095
Construction work-in-progress	1,141	508
Total cost	8,418	7,603
Less: accumulated depreciation and amortization	(2,865)	(2,723)
Electric utility plant, net	$5,553	$4,880

Accumulated depreciation and amortization in the table above includes accumulated amortization related to intangible assets of $188 million and $170 million as of September 30, 2014 and December 31, 2013, respectively. Amortization expense related to intangible assets was $6 million and $5 million for the three months ended September 30, 2014 and 2013, respectively, and $18 million and $16 million for the nine months ended September 30, 2014 and 2013, respectively. The Company’s intangible assets primarily consist of computer software development and hydro licensing costs.

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

During the second quarter of 2013, PGE charged to expense $52 million of costs previously included in construction work-in-progress (CWIP) related to the Cascade Crossing Transmission Project (Cascade Crossing), which was originally proposed as a 215-mile, 500 kV transmission project between Boardman, Oregon and Salem, Oregon. Based on an updated forecast of demand and future transmission capacity in the region, PGE determined in the second quarter of 2013 that the original projections of transmission capacity limitations contemplated in the Company’s 2009 Integrated Resource Plan, as acknowledged by the Public Utility Commission of Oregon (OPUC), were not likely to fully materialize. As a result, PGE and Bonneville Power Administration (BPA) worked toward refining the scope of the project and executed a non-binding memorandum of understanding (MOU) in May 2013. In connection with the MOU, the parties explored a new option under which BPA could provide PGE with ownership of approximately 1,500 MW of transmission capacity rights. As a result of the changed conditions reflected in the MOU, PGE also suspended permitting and development of Cascade Crossing and charged the capitalized costs related to Cascade Crossing to expense in the second quarter of 2013. In October 2013, the parties determined that they would not be able to reach an agreement on the financial terms for the proposed ownership of transmission capacity rights and, therefore, agreed to discontinue discussions on this option. The Company determined that, under conditions at that time, the best option for meeting its transmission needs is to continue to acquire transmission service offered under BPA’s Open Access Transmission Tariff. PGE has determined that it will not seek recovery of these costs.

Regulatory Assets and Liabilities

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

	September 30, 2014		December 31, 2013	
	Current	Noncurrent	Current	Noncurrent
Regulatory assets:				
Price risk management	$40	$76	$36	$140
Pension and other postretirement plans	—	180	—	194
Deferred income taxes	—	85	—	76
Deferred broker settlements	4	—	12	1
Debt reacquisition costs	—	16	—	17
Deferred capital projects	4	19	16	18
Other	8	20	2	18
Total regulatory assets	$56	$396	$66	$464
Regulatory liabilities:				
Asset retirement removal costs	$—	$791	$—	$747
Trojan decommissioning activities	—	57	—	41
Asset retirement obligations	—	40	—	39
Other	4	52	1	38
Total regulatory liabilities	$4 *	$940	$1 *	$865

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

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Accrued Expenses and Other Current Liabilities

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

	September 30, 2014	December 31, 2013
Accrued employee compensation and benefits	$50	$46
Accrued interest payable	37	23
Accrued taxes payable	37	21
Accrued dividends payable	23	22
Regulatory liabilities—current	4	1
Other	60	58
Total accrued expenses and other current liabilities	$211	$171

Credit Facilities

PGE has the following unsecured revolving credit facilities as of September 30, 2014:

- A $400 million syndicated credit facility, which is scheduled to expire in November 2018; and

- A $300 million syndicated credit facility, which is scheduled to expire in December 2017.

Pursuant to the terms of the agreements, both revolving credit facilities 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 applicable credit facility. Both revolving credit facilities contain provisions for two, one-year extensions that are subject to approval by the banks, require annual fees based on PGE's unsecured credit ratings, and contain customary covenants and default provisions, including a requirement that limits consolidated indebtedness, as defined in the agreements, to 65% of total capitalization. As of September 30, 2014, PGE was in compliance with this covenant with a 55.1% debt to total capital ratio.

PGE 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 credit facilities.

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.

PGE classifies borrowings under the revolving credit facilities and outstanding commercial paper as Short-term debt on the condensed consolidated balance sheets. As of September 30, 2014, PGE had no borrowings outstanding under the revolving credit facilities, no commercial paper outstanding, and $9 million of letters of credit issued. As of September 30, 2014, the aggregate available capacity under the credit facilities was $691 million.

In addition, the Company has two $30 million letter of credit facilities, under which PGE can request letters of credit for original terms not to exceed one year. The issuance of such letters of credit are subject to the approval of the issuing institution. As of September 30, 2014, $55 million of letters of credit had been issued under these facilities.

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

Long-term Debt

During the nine months ended September 30, 2014, PGE obtained four term loans pursuant to a credit agreement in an aggregate principal amount of $305 million. The term loan interest rates are set at the beginning of the interest period for periods ranging from one- to six-months, as selected by PGE and are based on the London Interbank Offered Rate (LIBOR) plus 70 basis points (approximately 0.9% as of September 30, 2014), with no other fees. The credit agreement expires October 30, 2015, at which time any amounts outstanding under the term loans become due and payable. Upon the occurrence of certain events of default, the Company’s obligations under the credit agreement may be accelerated. Such events of default include payment defaults to lenders under the credit agreement, covenant defaults and other customary defaults.

Additionally, in May 2014, PGE entered into a bond purchase agreement with certain institutional buyers (Buyers) under which the Company agreed to sell to the Buyers, in three tranches, an aggregate principal amount of $280 million of First Mortgage Bonds (FMBs). During the third quarter of 2014, 4.39% Series FMBs, due 2045, in the amount of $100 million was issued and funded. On October 15, 2014, a 4.44% Series FMBs, due 2046, in the amount of $100 million was issued and funded. A 3.51% Series FMBs, due 2024, in the amount of $80 million is expected to be issued and funded on or about November 17, 2014.

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	
	2014	2013	2014	2013	2014	2013
Three Months Ended September 30:						
Service cost	$4	$4	$—	$1	$—	$—
Interest cost	8	7	1	1	—	—
Expected return on plan assets	(9)	(10)	—	—	—	—
Amortization of net actuarial loss	4	6	—	—	—	—
Net periodic benefit cost	$7	$7	$1	$2	$—	$—
Nine Months Ended September 30:						
Service cost	$11	$12	$1	$2	$—	$—
Interest cost	25	23	3	3	1	1
Expected return on plan assets	(29)	(30)	(1)	(1)	—	—
Amortization of prior service cost	—	—	1	1	—	—
Amortization of net actuarial loss	13	18	—	—	—	—
Net periodic benefit cost	$20	$23	$4	$5	$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 September 30, 2014 and December 31, 2013, 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 nine month periods ended September 30, 2014 and 2013, except those transfers from Level 3 to Level 2 presented in this note.

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, 2014			
	Level 1	Level 2	Level 3	Total
Assets:				
Nuclear decommissioning trust: (1)				
Money market funds	$—	$65	$—	$65
Debt securities:				
Domestic government	8	6	—	14
Corporate credit	—	10	—	10
Non-qualified benefit plan trust: (2)				
Equity Securities:				
Domestic	4	2	—	6
International	1	—	—	1
Assets from price risk management activities: (1) (3)				
Electricity	—	2	—	2
Natural gas	—	3	1	4
	$13	$88	$1	$102
Liabilities—Liabilities from price risk management activities:(1) (3)				
Electricity	$—	$4	$80	$84
Natural gas	—	19	19	38
	$—	$23	$99	$122

(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, 2013			
	Level 1	Level 2	Level 3	Total
Assets:				
Nuclear decommissioning trust: (1)				
Money market funds	$—	$59	$—	$59
Debt securities:				
Domestic government	6	8	—	14
Corporate credit	—	9	—	9
Non-qualified benefit plan trust: (2)				
Equity securities:				
Domestic	4	3	—	7
International	1	—	—	1
Debt securities—domestic government	1	—	—	1
Assets from price risk management activities: (1) (3)				
Electricity	—	9	1	10
Natural gas	—	4	—	4
	$12	$92	$1	$105
Liabilities — Liabilities from price risk management activities: (1) (3)				
Electricity	$—	$10	$117	$127
Natural gas	—	40	23	63
	$—	$50	$140	$190

(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.

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 consist of 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 forwards, futures and swaps.

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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 Assets	Liabilities	Valuation Technique	Significant Unobservable Input	Price per Unit Low	High	Weighted Average
	(in millions)						
As of September 30, 2014:							
Electricity physical forward	$—	$65	Discounted cash flow	Electricity forward price (per MWh)	$12.91	$110.96	$41.50
Natural gas financial swaps	1	19	Discounted cash flow	Natural gas forward price (per Decatherm)	3.30	4.99	3.86
Electricity financial futures	—	15	Discounted cash flow	Electricity forward price (per MWh)	12.91	43.34	35.72
	$1	$99					