

PORTLAND GENERAL ELECTRIC CO /OR/
Form 10-Q
August 05, 2011
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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, 2011

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: 1-5532-99

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

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

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

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 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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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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 29, 2011 is 75,341,327 shares.

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PORTLAND GENERAL ELECTRIC COMPANY
FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2011

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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
BART	Best Available Retrofit Technology
Biglow Canyon	Biglow Canyon Wind Farm
Boardman	Boardman coal-fired generating plant
CAA	Clean Air Act
Cascade Crossing	Cascade Crossing Transmission Project
CERS	California Energy Resources Scheduling
Colstrip	Colstrip Units 3 and 4 coal-fired generating plant
Coyote Springs	Coyote Springs Unit 1 natural gas-fired generating plant
EPA	U.S. Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
IRP	Integrated Resource Plan
ISFSI	Independent Spent Fuel Storage Installation
kV	Kilovolt = one thousand volts of electricity
LLC	Limited Liability Company
Moody's	Moody's Investors Service
MW	Megawatts
MW _a	Average megawatts
MW _h	Megawatt hours
NVPC	Net Variable Power Costs
OPUC	Public Utility Commission of Oregon
PCAM	Power Cost Adjustment Mechanism
S&P	Standard & Poor's Ratings Services
SB 408	Oregon Senate Bill 408 (Oregon Revised Statutes 757.268)
SB 967	Oregon Senate Bill 967
SEC	Securities and Exchange Commission
Trojan	Trojan Nuclear Plant
URP	Utility Reform Project
VIE	Variable Interest Entity

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

PORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Dollars in millions, except per share amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Revenues, net	\$411	\$415	\$895	\$864
Operating expenses:				
Purchased power and fuel	169	186	363	410
Production and distribution	55	46	97	85
Administrative and other	51	48	103	93
Depreciation and amortization	55	57	111	114
Taxes other than income taxes	24	21	49	44
Total operating expenses	354	358	723	746
Income from operations	57	57	172	118
Other income (expense):				
Allowance for equity funds used during construction	1	4	2	8
Miscellaneous income (expense), net	1	(3)	3	(2)
Other income, net	2	1	5	6
Interest expense	28	26	55	55
Income before income taxes	31	32	122	69
Income taxes	9	8	31	18
Net income and Net income attributable to Portland General Electric Company	\$22	\$24	\$91	\$51
Weighted-average shares outstanding (in thousands):				
Basic	75,326	75,276	75,322	75,253
Diluted	75,401	75,290	75,369	75,268
Earnings per share:				
Basic	\$0.29	\$0.32	\$1.21	\$0.68
Diluted	\$0.29	\$0.32	\$1.21	\$0.68
Dividends declared per common share	\$0.265	\$0.260	\$0.525	\$0.515

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, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$72	\$4
Accounts receivable, net	134	137
Unbilled revenues	68	93
Inventories	61	56
Margin deposits	68	83
Regulatory assets - current	184	221
Other current assets	64	67
Total current assets	651	661
Electric utility plant, net	4,227	4,133
Regulatory assets - noncurrent	481	544
Non-qualified benefit plan trust	42	44
Nuclear decommissioning trust	36	34
Other noncurrent assets	66	75
Total assets	\$5,503	\$5,491

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)

	June 30, 2011	December 31, 2010
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 167	\$ 169
Liabilities from price risk management activities - current	163	188
Short-term debt	—	19
Current portion of long-term debt	—	10
Regulatory liabilities - current	19	25
Other current liabilities	74	78
Total current liabilities	423	489
Long-term debt, net of current portion	1,798	1,798
Regulatory liabilities - noncurrent	692	657
Deferred income taxes	483	445
Liabilities from price risk management activities - noncurrent	143	188
Unfunded status of pension and postretirement plans	115	140
Non-qualified benefit plan liabilities	98	97
Other noncurrent liabilities	103	78
Total liabilities	3,855	3,892
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 June 30, 2011 and December 31, 2010	—	—
Common stock, no par value, 160,000,000 shares authorized; 75,341,104 and 75,316,419 shares issued and outstanding as of June 30, 2011 and December 31, 2010, respectively	832	831
Accumulated other comprehensive loss	(5) (5
Retained earnings	818	766
Total Portland General Electric Company shareholders' equity	1,645	1,592
Noncontrolling interests' equity	3	7
Total equity	1,648	1,599
Total liabilities and equity	\$5,503	\$5,491

See accompanying notes to condensed consolidated financial statements.

Table of ContentsPORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Six Months Ended June 30,		
	2011	2010	
Cash flows from operating activities:			
Net income	\$91	\$51	
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	111	114	
(Decrease) increase in net liabilities from price risk management activities	(64) 95	
Regulatory deferral - price risk management activities	64	(95)
Deferred income taxes	33	18	
Regulatory deferral of settled derivative instruments	12	27	
Power cost deferrals, net	12	(1)
Renewable adjustment clause deferrals	11	7	
Senate Bill 408 deferrals, net	(4) (7)
Allowance for equity funds used during construction	(2) (8)
Decoupling mechanism deferrals, net	—	(8)
Other non-cash income and expenses, net	15	19	
Changes in working capital:			
Decrease in receivables	28	59	
Decrease (increase) in margin deposits, net	16	(21)
Income tax refund received	8	53	
Decrease in payables	(16) (37)
Other working capital items, net	(5) (9)
Contribution to pension plan	(26) —	
Other, net	(5) (11)
Net cash provided by operating activities	279	246	
Cash flows from investing activities:			
Capital expenditures	(138) (264)
Sales of Nuclear decommissioning trust securities	29	18	
Purchases of Nuclear decommissioning trust securities	(31) (17)
Distribution from Nuclear decommissioning trust	—	19	
Other, net	1	(1)
Net cash used in investing activities	(139) (245)

See accompanying notes to condensed consolidated financial statements.

Table of ContentsPORTLAND GENERAL ELECTRIC COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, continued

(In millions)

(Unaudited)

	Six Months Ended June 30,	
	2011	2010
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	\$—	\$249
Payments on long-term debt	(10) (186
Borrowings on short-term debt	—	8
Payments on commercial paper, net	(19) —
Dividends paid	(39) (38
Debt issuance costs	—	(2
Noncontrolling interests' capital distributions	(4) —
Net cash (used in) provided by financing activities	(72) 31
Increase in cash and cash equivalents	68	32
Cash and cash equivalents, beginning of period	4	31
Cash and cash equivalents, end of period	\$72	\$63
Supplemental cash flow information is as follows:		
Cash paid for interest, net of amounts capitalized	\$51	\$49
Cash paid for income taxes	3	—
Non-cash investing and financing activities:		
Accrued capital additions	24	23
Accrued dividends payable	21	20
Preliminary engineering transferred to Construction work in progress from	7	—
Other noncurrent assets		

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, purchase, transmission, distribution, and retail sale of electricity in the state of Oregon. The Company also sells electricity and natural gas in the wholesale market to utilities, brokers, and power and fuel marketers located in the United States and Canada. 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 service area is located within the state of Oregon. The Company served 824,526 retail customers as of June 30, 2011.

Condensed Consolidated Financial Statements

These condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote 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.

The financial information included herein for the three and six month periods ended June 30, 2011 and 2010 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 results of operations 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, 2010 is derived from the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2010, included in Item 8 of PGE's Annual Report on Form 10-K, filed with the SEC on February 25, 2011, and should be read in conjunction with such consolidated financial statements.

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 potential 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.

Reclassifications

PGE has separately presented regulatory deferrals related to the renewable adjustment clause from Other non-cash income and expenses, net in the Cash flows from operating activities section of the consolidated statement of cash flows for the six months ended June 30, 2010 to conform with the 2011 presentation.

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PORTLAND GENERAL ELECTRIC COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

(Unaudited)

Recent Accounting Pronouncements

Accounting Standards Update (ASU) 2010-06, Fair Value Measurements and Disclosures (Topic 820) - Improving Disclosures about Fair Value Measurements (ASU 2010-06) requires, among other matters, separate reporting about purchases, sales, issuances, and settlements for Level 3 fair value measurements. For additional information on Level 3, see Note 3, Fair Value of Financial Instruments. In accordance with the provisions of ASU 2010-06, PGE adopted this requirement of ASU 2010-06 on January 1, 2011, which did not have a material impact on the Company's consolidated financial position, consolidated results of operations, or consolidated cash flows. All other requirements of ASU 2010-06 were adopted on January 1, 2010 in accordance with ASU 2010-06.

In May 2011, ASU 2011-04, Fair Value Measurements and Disclosures (Topic 820) - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04) was issued. Many of the amendments in ASU 2011-04 change the wording used to describe principles and requirements to align with International Financial Reporting Standards as issued by the International Accounting Standards Board, and are not intended to change the application of Topic 820. Some of the amendments clarify the Financial Accounting Standards Board's intent on the application of existing fair value guidance or change a particular principle or requirement for measuring fair value or fair value disclosures. The amendments in ASU 2011-04 are to be applied prospectively and are effective for interim and annual periods beginning after December 15, 2011 for public entities, with early application not permitted. PGE will adopt the amendments contained in ASU 2011-04 on January 1, 2012, which are not expected to have a material impact on the Company's consolidated financial position, consolidated results of operations, or consolidated cash flows.

In June 2011, ASU 2011-05, Comprehensive Income (Topic 220) - Presentation of Comprehensive Income (ASU 2011-05) was issued. The amendments of ASU 2011-05 require that an entity report items of other comprehensive income in one of two ways: (i) a single statement with components of net income and total net income, the components of comprehensive income and total other comprehensive income, and a total for comprehensive income; or (ii) two statements with components of net income and total net income in the first statement, immediately followed by a statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. The amendments in ASU 2011-05 are to be applied retrospectively and are effective for interim and annual periods beginning after December 15, 2011, with early application permitted. PGE will adopt the amendments contained in ASU 2011-05 on January 1, 2012, which will not have a material impact on the Company's consolidated financial position, consolidated results of operations, or consolidated cash flows.

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PORTLAND GENERAL ELECTRIC COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

(Unaudited)

NOTE 2: BALANCE SHEET COMPONENTS

Accounts Receivable, Net

Accounts receivable is net of an allowance for uncollectible accounts of \$5 million as of June 30, 2011 and December 31, 2010.

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

	Six Months Ended	
	June 30,	
	2011	2010
Balance as of beginning of period	\$5	\$5
Provision, net	3	3
Amounts written off, less recoveries	(3) (3
Balance as of end of period	\$5	\$5

Inventories

Inventories consist primarily of materials, supplies, and fuel. Materials and supplies inventories are used in operations and maintenance and capital activities, and are recorded at average cost. Fuel inventories include natural gas, coal, and oil and are used in PGE's generating plants. Natural gas is recorded at the lower of average cost or market, with coal and oil recorded at average cost.

Electric Utility Plant, Net

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

	June 30,	December 31,
	2011	2010
Electric utility plant	\$6,458	\$6,279
Construction work in progress	121	125
Total cost	6,579	6,404
Less: accumulated depreciation and amortization	(2,352) (2,271
Electric utility plant, net	\$4,227	\$4,133

In 2011, \$7 million of costs related to the Cascade Crossing Transmission Project were transferred to Construction work in progress. Such costs were previously included within preliminary engineering, which is included in Other noncurrent assets in the condensed consolidated balance sheets.

Accumulated depreciation and amortization in the table above includes accumulated amortization related to intangible assets of \$143 million and \$133 million as of June 30, 2011 and December 31, 2010, respectively. Amortization expense related to intangible assets was \$5 million and \$4 million for the three months ended June 30, 2011 and 2010, respectively, and \$9 million and \$7 million for the six months ended June 30, 2011 and 2010, respectively.

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PORTLAND GENERAL ELECTRIC COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS, continued

(Unaudited)

Regulatory Assets and Liabilities

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

	June 30, 2011		December 31, 2010	
	Current	Noncurrent	Current	Noncurrent
Regulatory assets:				
Price risk management	\$ 153	\$ 142	\$ 175	\$ 185
Pension and other postretirement plans	—	207	—	213
Deferred income taxes	—	91	—	95
Deferred broker settlements	12	—	24	—
Renewable energy deferral	12	—	22	—
Debt reacquisition costs	—	22	—	23
Other	7	19	—	28
Total regulatory assets	\$ 184	\$ 481	\$ 221	\$ 544
Regulatory liabilities:				
Asset retirement removal costs	\$—	\$ 612	\$—	\$ 588
Asset retirement obligations	—	34	—	33
Power cost adjustment mechanism	—	12	—	—
Regulatory treatment of income taxes (SB 408)	8	1	5	9
Trojan ISFSI pollution control tax credits	9	5	18	4
Other	2	28	2	23
Total regulatory liabilities	\$ 19	\$ 692	\$ 25	\$ 657

In May 2011, Oregon Senate Bill 967 (SB 967) was enacted, which repealed previously existing statutes (collectively referred to as 'SB 408') governing the annual adjustment of public utility rates to account for differences in taxes paid by electricity and natural gas utilities and amounts collected from customers for taxes. SB 967 is effective beginning with the annual filing pertaining to 2010. Accordingly, no annual SB 408 reports or corresponding price adjustments will be required for 2010 and subsequent years. The enactment of SB 967 did not have a material impact on PGE's consolidated financial statements as minor amounts had been recorded related to SB 408 for 2011 or 2010 as of June 30, 2011 or December 31, 2010. With the enactment of SB 967, taxes paid by electricity and natural gas utilities will be considered in connection with general ratemaking proceedings.

Other Current Liabilities

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

	June 30, 2011	December 31, 2010
Accrued interest payable	\$ 26	\$ 26
Accrued taxes payable	19	22
Accrued dividends payable		