IDAHO POWER®
An IDACORP Company

RECEIVED
2007 MAR 20 PM 4:23
IDAHO PUBLIC UTILITIES COMMISSION

BARTON L. KLINE
Senior Attorney

March 20, 2007

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
P. O. Box 83720
Boise, Idaho 83720-0074

Re: Case No. IPC-E-07-07
IN THE MATTER OF IDAHO POWER COMPANY'S APPLICATION FOR AN ACCOUNTING ORDER CLARIFYING THE ACCOUNTING FOR FUTURE PENSION OBLIGATIONS

Dear Ms. Jewell:

Please find enclosed for filing an original and seven (7) copies of Idaho Power Company's Application for the above-referenced matter.

I would appreciate it if you would return a stamped copy of this transmittal letter in the enclosed self-addressed, stamped envelope.

Very truly yours,

Barton L. Kline

BLK:sh
Enclosures

P.O. Box 70 (83707)
1221 W. Idaho St.
Boise, ID 83702

BARTON KLINE, ISB # 1526
LISA D. NORDSTROM, ISB # 5733
Idaho Power Company
1221 West Idaho Street
P. O. Box 70
Boise, Idaho 83707
Telephone: (208) 388-2692
FAX Telephone: (208) 388-6936

Attorney for Idaho Power Company

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER COMPANY'S APPLICATION FOR AN ACCOUNTING ORDER CLARIFYING THE ACCOUNTING FOR FUTURE PENSION OBLIGATIONS	CASE NO. IPC-E-07-07 APPLICATION

COMES NOW, Idaho Power Company ("Idaho Power" or the "Company") and in accordance with the provisions of Idaho Code §61-524, and RP 052, hereby applies for an accounting order authorizing the Company to: (1) change from accrual accounting to cash accounting to determine future contributions to defined benefit pension plans; and (2) defer future defined benefit pension plan contributions and record them as regulatory assets with ratemaking treatment of such regulatory assets to be determined in subsequent revenue requirement proceedings. In support of this Application, Idaho Power states as follows:

1. This Application is filed pursuant to Idaho Code §61-524, which authorizes the Commission to prescribe the accounting to be used by public utilities subject to its jurisdiction.

2. Communications regarding this Application should be addressed to:

Barton L. Kline, Senior Attorney
Lisa D. Nordstrom, Attorney II
Idaho Power Company
P.O. Box 70
Boise, Idaho 83707
blkine@idahopower.com
lnordstrom@idahopower.com

Ric Gale, Vice President
Regulatory Affairs
Idaho Power Company
P.O. Box 70
Boise, Idaho 83707
rgale@idahopower.com

BACKGROUND

1. Idaho Power accounts for defined benefit pension expense in accordance with Statement of Financial Accounting Standards (SFAS\FAS) 87, *Employers' Accounting for Pensions*, FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, and FASB Statement No. 132(R) *Employers' Disclosures about Pensions and Other Postretirement Benefits*.

2. Since the adoption of SFAS 87 in 1986, the Company has filed general rate cases in 1994 and 2003 that dealt with pension funding issues. Prior to the 1994 general rate case, Idaho Power recovered defined benefit pension expense based on a 1984 test-year case. In that case, the allowed costs of $4,961,540 were based on actual contributions made during the test year and charged to operations and maintenance, net of known and measurable adjustments. In the 1994 general rate case, the allowed defined benefit pension expense was based on the accrued 1994 SFAS 87 pension expense of $2,036,800.

In the 2003 general rate case, IPC-E-03-13, Idaho Power included accrued SFAS 87 pension expense. The Commission Staff recommended that the Commission not allow the accrued SFAS 87 amount to be included in the Company's revenue requirement. Staff stated that its recommended SFAS 87 defined benefit pension expense adjustment "is a reconciliation between cash and accrual accounting. In other words, although the Company accrues a pension contribution on its books for financial reporting purposes, Idaho Power did not contribute to the plan for 2003 and therefore did not incur any actual costs." (Tr, at 1505). The Commission found Staff's proposed adjustment to be appropriate and removed the accrued SFAS 87 amount from the 2003 test year. However, in its Order directing the removal of the accrued amounts from the Company's revenue requirement, (Order No. 29505) the Commission did not direct the Company to change to a cash method to account for defined benefit pension expense.

3. In a general rate case proceeding decided in 2005 in Case No. UWI-W-04-04, United Water utilized the SFAS 87 accrual methodology to compute its defined benefit pension expense. In that case, the Commission determined that using actual cash contributions, not accrued obligations consistent with SFAS 87, was the appropriate way to determine the amount United Water could recover in rates for its defined benefit pension expenses. (Order No. 29838).

RELIEF REQUESTED

4. In this Application Idaho Power is seeking clarification that the Company can account for defined benefit pension expenses on a cash basis rather than the accrual basis that the Company has used in the past. Commission approval of cash basis accounting for recovery of defined benefit pension expense will improve the Company's capitalization ratios when the pension expense is deferred until contributions are made rather than run through the income statement. Idaho Power believes that use of the cash

basis methodology is consistent with recent Commission ratemaking pronouncements concerning the recovery of defined benefit pension expense in rates.

5. In conjunction with the Company's request for clarification of its authority to utilize cash basis accounting for recovery of defined benefit pension expense, the Company is also requesting authority to defer future cash contributions it makes to its defined benefit pension plan and to record these future defined benefit pension plan cash contributions as regulatory assets. The actual ratemaking treatment of these regulatory assets would be determined in a subsequent revenue requirement proceeding.

6. This Application is not requesting current approval of future ratemaking treatment of deferred expenses associated with the Company's defined benefit pension plans. The Company is only requesting authority to implement regulatory accounting practices.

7. The Company requests that this Application be processed under RP 201, *et seq.*, allowing for consideration of issues to be processed under Modified Procedure, i.e., by written submissions rather than by an evidentiary hearing.

8. The Company further requests that the Commission use its best efforts to provide a final order on or before May 1, 2007.

WHEREFORE, Applicant Idaho Power hereby requests that the Commission issue its Order authorizing Idaho Power to:

(1) Account for future contributions to its defined benefit pension plan on a cash basis.

(2) Defer future cash contributions to the defined benefit pension plan and to account for such contributions as a regulatory asset subject to later review and approval for ratemaking purposes in an Idaho Power revenue requirement proceeding.

In support of this Application Idaho Power has enclosed the direct testimony of Lori Smith as Attachment 1 and the Company stands ready to present Ms. Smith's testimony in support of this Application in a technical hearing if the Commission determines that such a hearing is required.

Respectfully submitted this 20th day of March 2007.

BARTON L. KLINE
Attorney for Idaho Power Company

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

CASE NO. IPC-E-07-07

IDAHO POWER COMPANY

ATTACHMENT 1

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER COMPANY'S APPLICATION FOR AN ACCOUNTING ORDER CLARIFYING THE ACCOUNTING FOR FUTURE PENSION OBLIGATIONS	)))))))	Case No. IPC-E-07-07 DIRECT TESTIMONY OF LORI SMITH

IDAHO POWER COMPANY

DIRECT TESTIMONY

OF

LORI SMITH

Q: Would you please state your name, business address, and present occupation?

A: My name is Lori Smith and my business address is 1221 West Idaho Street, Boise, Idaho. I am employed by Idaho Power Company as Vice President of Finance and Chief Risk Officer.

Q: What is your educational background?

A: I graduated in 1983 from Boise State University, Boise, Idaho, receiving a Bachelor of Business Administration degree in Information Sciences. In 1999, I was awarded the designation of Chartered Financial Analyst. I have also attended numerous seminars and conferences related to utility accounting, corporate finance and risk related topics.

Q: Would you please outline your business experience?

A: From 1983 to 1986, I was employed by Idaho Power Company and assigned to the Materials Management Department. From 1986 to 1994, I served as a Financial Accountant and later as a Budget Accountant. I was promoted to Business Analyst in 1994. In 1996, I was promoted to Strategic Analysis Team Leader. In 2000, I was named Director of Strategic Analysis. In 2003, I was named Director of Strategic Analysis and Risk Management. In 2004 I was named to my current positions as Vice President of Finance and Chief Risk Officer.

Q: What are your duties as Vice President of Finance and Chief Risk Officer?

A: I oversee and direct four distinct areas within Idaho Power Company. First, Strategic Analysis has the responsibility of regulatory accounting, maintaining ongoing financial forecasts, performance of due diligence activities, and development of capital raising strategies. Second, Financial Accounting and Reporting, which has responsibility for the general ledger, property records, assuring the Company's compliance with Generally Accepted Accounting Principles (GAAP) and external reporting (Securities and Exchange Commission and New York Stock Exchange). Third, Corporate Risk Management has the responsibility of implementing risk management tools related to credit, market and operational risk along with exploring and implementing hedging strategies. Last is the Corporate Support Area that is responsible for developing, monitoring, and updating as appropriate the annual budget for operating expenses and construction expenditures.

Q: What is the scope of your testimony?

A: My testimony will describe recent Financial Accounting Standards Board (FASB) developments that affect how Idaho Power accounts for defined benefit pension plans. I will also provide information on potential FASB developments that could affect future accounting for defined benefit pension plans. I will describe the current regulatory treatment of the cost of the Company's defined benefit pension plan, and summarize the Company's history of recovering its defined benefit pension expense in rates. Finally, I will explain what the Company is requesting in this filing regarding the defined benefit pension expense.

Q: What are the recent FASB developments regarding accounting for defined benefit pension plans?

A: Idaho Power accounts for defined benefit pension expense in accordance with Statement of Financial Accounting Standards (SFAS/FAS) No. 87, *Employers' Accounting for Pensions*, FASB Statement No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions,* and FASB Statement No. 132(R), *Employers' Disclosures about Pensions and Other Postretirement Benefits.*

The most recent development affecting the Company's accounting for defined benefit pension plans came in September 2006, when the FASB issued SFAS 158 requiring Idaho Power to record the net funded status of each of its retirement and postretirement plans as assets or liabilities on the Company's balance sheet. Under SFAS 158 an asset is recorded for a plan when the market value of plan assets exceeds the actuarially determined pension or postretirement projected benefit obligation. A liability is recorded for a plan when the projected benefit obligation exceeds the plan assets. Under this new pronouncement, the difference between the amounts reported on the balance sheet prior to the adoption of SFAS 158 and the amounts now required to be reported as assets and liabilities, or the funded status, should be recorded as an adjustment to accumulated other comprehensive income (AOCI), net of deferred taxes.

This changed accounting standard significantly affected the amounts recorded on Idaho Power's balance sheet related to defined benefit pension assets and liabilities and AOCI. AOCI is a component of equity on the Company's balance sheet and is used in regulatory proceedings as a component in determining Idaho Power's revenue requirement. Adjustments to AOCI in accordance with the provisions of SFAS 158 would affect this calculation in future rate proceedings. However, in Order No. 30256 issued on February 27, 2007 in Case No. IPC-E-06-33, the Commission allowed the Company to defer AOCI related to the adoption of SFAS 158 as a regulatory asset or liability thereby mitigating the affect of SFAS 158 on the Company's capitalization ratios.

Q: Have there been any other recent changes in the law that will affect defined benefit pension plans?

A: Tax law changes have affected the contribution amounts. The Pension Protection Act of 2006 was enacted in August of 2006. For defined benefit pension plans, the Act revises the calculation of Employee Retirement Income Security Act (ERISA) minimum funding requirement, increases the maximum tax deductible contribution employers can make and places certain restrictions on significantly under-funded plans. The new minimum liability provisions will go into effect in 2008 and will result in more companies being required to make minimum liability contributions as well as to increase the amounts of those required contributions. If the Pension Protection Act of 2006 had been effective in 2006, Idaho Power would not have been required to contribute for 2006 and would not be expected to be required to contribute for 2007.

Q: Does the Company foresee any future FASB developments that would affect the Company's accounting for defined benefit pension plans?

A: The Company is not able to predict possible FASB developments. However, at this time there are no pending pronouncements with the FASB that would affect the accounting for pensions and postretirement benefits. There has been discussion about the possibility of a convergence with international standards in the future and the FASB is planning for Phase 2 of the Postretirement Benefits Project. The FASB staff anticipates discussing the plan for Phase 2 with the FASB at a public Board meeting in the first quarter of 2007.

Q: What is the current regulatory treatment of expenses associated with Idaho Power's defined benefit pension plan?

A: Because the Company has prudently managed its pension assets, it has not been required to make cash contributions to its pension fund for some time. The Company has accrued pension expense in accordance with SFAS 87 but the Company is not currently receiving recovery of SFAS 87 accrued expenses in its rates.

Q: Why is the Company filing this application?

A: The Company is seeking to resolve two questions regarding rate recovery of its defined benefit pension expense for the long term.

Since the adoption of SFAS 87 in 1986, the Company filed general rate cases in 1994 and 2003 that dealt with pension funding issues. Prior to the 1994 general rate case, Idaho Power was recovering defined benefit pension expense based on a 1984 test-year case. In that case, allowed costs of $4,961,540 were based on actual contributions made during the test year and charged to operations and maintenance, net of known and measurable adjustments. In the 1994 general rate case, the allowed defined benefit pension expense was based on the 1994 SFAS 87 pension expense of $2,036,800.

In the 2003 general rate case, the Commission Staff recommended that the Commission not allow the accrued SFAS 87 amount to be included in the Company's revenue requirement. Staff stated that its recommended SFAS 87 defined benefit pension expense adjustment "is a reconciliation between cash and accrual accounting. In other words, although the Company accrues a pension contribution on its books for financial reporting purposes, Idaho Power did not contribute to the plan for 2003 and therefore did not incur any actual costs." (TR. At 1505). The Commission found Staff's proposed adjustment to be appropriate and removed the accrued SFAS 87 amount from the 2003 test year. However, in its Order directing the removal of the accrued amounts from the Company's revenue requirement, the Commission did not direct the Company to change to a cash method for accounting for defined benefit pension expense.

With this application, the Company is requesting clarification that Idaho Power can account for defined benefit pension expenses using a cash-basis methodology rather than the accrual basis that the Company has used in the past. In addition, if the Commission allows the change to cash basis accounting, the Company requests authority to defer future cash basis contributions and to record future defined benefit pension plan contributions as a regulatory asset with ratemaking treatment to be determined in subsequent revenue requirement proceedings.

Q: What benefit does cash-basis accounting for defined benefit pension expenses provide to the Company and its customers?

A: Commission approval of cash basis accounting for recovery of defined benefit pension expense will improve the Company's capitalization ratios when the pension expense is deferred until contributions are made rather than run through the income statement.

Q. Is the deferral authority requested in this application similar to the ratemaking procedure the Commission recently approved in Order No. 30256?

A. Yes.

Q: Is this request consistent with other Orders the Commission has recently issued in regards to defined benefit pension expense recovery?

A: Yes. In August, 2005 the Commission issued Order No. 29838 in Case No. UWI-W-04-4 allowing United Water to increase its charges to customers. One of the adjustments the Commission made to United Water's proposed test year operating expenses was concerning defined benefit pension expense. In its direct case, United Water calculated its defined benefit pension expense using the SFAS 87 accrual methodology. However, the Commission found that:

> It is not appropriate for the purposes of regulatory reporting and rate recovery to use the FAS 87 accrual calculation. FAS 87 was developed for the purpose of having a standardized number for reporting pension liability on a company's financial statements. Given the speculative nature of the pension contribution calculation, we find that the goals of regulatory ratemaking and recovery are best met, under the facts of this particular case, by allowing recovery of the actual amounts of cash contributions that United Water would have been required to contribute to the plan for test year.

(Order No. 29838 p. 18).

Likewise, in its Final Order on Reconsideration in the United Water case, the Commission explained that they "continue to find the ERISA contribution amount to more accurately reflect the actual recovery required in rates for pension expense for the Company". (Order No. 29871 p. 10-11).

Q: If the Commission provides the clarification requested in this Application would there be any near-term impact on rates?

A: No. Idaho Power's defined benefit pension plan is adequately funded at this time. No contributions need to be made in 2007. As a result, if 2007 is selected as a test year, there would be no revenue requirement impact from this ruling. The Company's revenue requirement would not be affected until such a time as cash contributions are made to the pension plan and a request for defined benefit pension contribution recovery is filed with the Commission.

Q: What is the impact of this application on future ratemaking treatment of pension expense?

A: At this time, Idaho Power is only seeking authority to use cash-basis accounting for contributions to its defined benefit pension plan and to set up a regulatory asset for future recovery of cash basis defined benefit pension plan contributions. Like the Company's recent Application for an accounting order to comply with SFAS 158 in Case NO. IPC-E-06-33, nothing in this Application is intended to request any approval regarding future ratemaking treatment. It is not until the Company begins making cash contributions to the defined benefit pension plan that Idaho Power would request recovery of these cash contributions to the defined benefit pension plan in its rates.

Q: Does this conclude your testimony?

A: Yes, it does.