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IDAHO PUBLIC
UTILITIES COMMISSION

BARTON L. KLINE
Senior Attorney

May 2, 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-07-7
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 the Reply Comments of Idaho Power Company 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-07-7 REPLY COMMENTS OF IDAHO POWER COMPANY

COMES NOW, Idaho Power Company ("Idaho Power" or the "Company") and hereby responds to the Comments of the Staff of the Idaho Public Utilities Commission ("Staff") filed on April 19, 2007.

I.
THE REASONS FOR THE COMPANY'S FILING

1. Generally Accepted Accounting Principles (GAAP) require that Idaho Power account for defined benefit pension expense in accordance with Statement of Financial Accounting Standards (SFAS\FAS) 87.

2. In its 2003 general rate case, IPC-E-03-13, Idaho Power proposed to use SFAS 87 pension expense as an expense to be recovered in customer rates. The Commission found that including *accrued* SFAS 87 pension amounts in rates was not appropriate and removed the accrued SFAS 87 amount from the 2003 test year. (Order No. 29505 p. 21). However, in directing the removal of the accrued SFAS 87 amounts from the Company's revenue requirement, the Commission did not instruct the Company to change to a cash method to account for defined benefit pension expense. At some point in the future, the Company's actuaries will advise the Company that a cash contribution to its defined benefit pension plan is needed to comply with Employee Retirement Income Security Act (ERISA) requirements.

3. Because the Company is still required by GAAP to treat accrued SFAS 87 amounts as a current expense in its financial disclosure documents and because the Commission does not allow accrued SFAS 87 expenses to be recovered in rates, the ongoing accrual of SFAS 87 pension expense and lack of income to offset the expense accrual creates a mismatch on the Company's income statement, adversely affecting its capitalization ratios and earnings.

4. To respond to this mismatch, the Company filed this case to obtain an accounting order authorizing the Company to (1) account for defined benefit pension expense on a cash basis; and (2) to authorize the Company to defer the expense associated with defined benefit pension plan cash contributions and record them as regulatory assets with actual ratemaking treatment of such regulatory assets to be determined in subsequent revenue requirement proceedings.

5. To obtain the customer benefits that will accrue if the above-described mismatch is eliminated, the Commission's order in this case needs to contain language confirming that defined benefit pension plan contributions are an appropriate item for inclusion in the Company's revenue requirement and that it is appropriate for the Company to seek recovery of pension costs in rates based on actual cash contributions to the defined benefit pension plan.

6. The Company is not seeking a final ratemaking determination in this case. The prudency of the Company's cash contributions to its defined benefit pension plan will be determined in future ratemaking proceedings.

II.
WHERE THE COMPANY AND STAFF AGREE

In its Comments Staff acknowledges that removal of the SFAS 87 pension expense from the Company's income statement will benefit customers.

> It is uncontested that removal of the SFAS 87 pension expense from the income statement will improve the Company's capitalization ratios, improve the Company's standing with rating agencies and ultimately benefit customers, presumably through lower borrowing costs. The amount of the benefit received by customers is impossible to quantify. However, approving a regulatory asset for the Company's SFAS pension expense will reaffirm the Company's financial position to rating agencies and may assist, along with many other factors, the Company receiving an improved bond rating.

(Staff Comments p. 6).

Both Staff and Idaho Power agree that removal of the accrued SFAS 87 pension expense from the income statement is desirable and can be accomplished by taking the steps required by SFAS 71 to properly qualify the accrued expense as a regulatory asset. The steps required by SFAS 71 are discussed in more detail below.

III.
WHERE STAFF AND THE COMPANY DISAGREE

1. Idaho Power Is Not Seeking To Recover Accrued SFAS 87 Expenses In a Manner Inconsistent with Commission Orders.

In its Comments on page 6, Staff acknowledges that allowing the Company to defer accrued SFAS 87 expense and thereby remove the SFAS 87 pension expense from the income statement is desirable. However, Staff's Comments indicate a concern that the Company is acting improperly and attempting to recover accrued SFAS 87 expense (which the Commission denied in the 2003 rate case) by means of deferral accounting. Staff's concern is expressed on page 4 of its Comments:

> In other words, if the Company's Application were approved, they would be deferring the SFAS pension expense for future recovery, which is inconsistent with the Commission's intent in Order No. 29505 that only allowed the Company to recover the actual amount contributed to the plan during a test year, $0.00.

Staff's concerns are unwarranted. Idaho Power is *not* seeking to recover deferred SFAS 87 pension expense in a manner that is inconsistent with prior Commission orders. This is why Idaho Power did not propose an amortization schedule or request carrying charges for an SFAS 87 deferral balance. Idaho Power recognizes that over the entire lifespan of the Company's defined benefit pension program, accrued SFAS 87 pension expense will match cash contributions made to ensure that the Company adequately funds its pension program. So long as the Company is permitted to include its prudently incurred cash contributions to its defined benefit pension program as a part of its revenue requirement for ratemaking purposes, the Company is made whole and only actual cash contributions are recovered from customers. This is consistent with Commission Order No. 29838 issued to United Water in Case No. UWI-W-04-4.

Stated in accounting terms, authorizing the Company to create a regulatory asset related to cash contributions made to the defined benefit plan would not result in an increase in the net amount of the Company's regulatory assets. Cash contributions recorded as a regulatory asset would result in an equal reduction to the amounts recorded in the regulatory asset related to the SFAS 87 pension expense deferral. The result of that entry would be a simple reclassification from one regulatory asset to another. Attachment 1 shows how this reclassification would be recorded.

However, as discussed in greater detail below, unless the Commission's order provides reasonable assurance that cash contributions to the pension program can be recovered in rates, neither the Company nor the Company's outside auditors could conclude with reasonable certainty that a regulatory asset has been created and the above-described resulting benefits of regulatory asset accounting would not be achieved.

2. Staff's Compromise Will Not Accomplish Its Intended Purpose.

Staff proposes an alternative accounting procedure which it described in its Comments as its compromise proposal. Staff's compromise proposal eliminates the above-described mismatch by removing SFAS 87 pension expense from the income statement by deferring the accrued expense and creating a regulatory asset. To this point, Staff's compromise proposal is identical to Idaho Power's proposal. However, Staff's compromise proposal then requires that future cash contributions made to cover pension obligations be credited against the accrued SFAS 87 regulatory asset. It appears that under Staff's compromise proposal, future cash contributions made to cover pension obligations, even cash contributions required by ERISA compliance, would not be included in Idaho Power's revenue requirement and would only act as an offset against accumulated deferred SFAS 87 expenses. If this interpretation of Staff's compromise proposal is correct, then Staff's compromise proposal would violate SFAS 71 and the deferred SFAS 87 accruals would not qualify as regulatory assets and could not be removed from the Company's income statement.

As Staff correctly noted on page 4 of its Comments, SFAS 71 provides that before costs which would otherwise be expensed can be capitalized or deferred, it must be probable that the regulating entity will allow recovery of prudently incurred amounts *in future rates*. (Emphasis added). Unless the Company is permitted to include the cash contributions it makes to cover its pension obligations in its revenue requirement for ratemaking purposes, Staff's compromise proposal will not succeed in accomplishing its stated goal of removing the SFAS 87 regulatory asset from the Company's income statement. As previously noted, failure to accomplish this goal will deny benefits to customers.

3. Staff's Opposition To Deferral of Cash Contributions Is Unwarranted.

Staff opposes the Company's request that the Commission authorize the Company to defer future cash contributions to cover ERISA-required pension obligations. (Staff Comments p. 5). Staff's Comments indicate a misunderstanding of how cash pension contributions are determined and paid. ERISA requirements drive the Company's obligation to make cash contributions to its defined benefit pension plan. ERISA requirements can force pension contributions to be made in a very "lumpy" fashion. Depending on annual investment performance projections and actuarial assumptions of future pension obligations, required contributions can vary considerably from one period to another. The dollar amount of contributions and the timing of when contributions will be required are not "smooth" or predictable and the contributions are mandated by federal law. As a result, Idaho Power believes that the Company's legally-required pension contributions are the types of unpredictable expenses for which deferral accounting is appropriate. Commission acceptance of Staff's position would leave the Company exposed to non-recovery in rates of actual cash contributions that federal law requires Idaho Power to make to its defined benefit pension plan.

The Company is not requesting a determination by the Commission in this case of either a carrying charge rate or an amortization schedule for any deferred expenses associated with cash contributions to the defined benefit pension plan. As noted in the Staff's Comments, it may be several years before the Company is required to make a cash contribution. When a cash contribution is required, the Company will file for an accounting order to determine an appropriate carrying charge rate and amortization period for the cash contribution.

The Company is not seeking to recover more than its *cash* contributions. It is seeking a deferral of expense which would comply with SFAS 71 and create a regulatory asset. If the Commission concurs that it is reasonable to assume that the Company's actual cash contributions to its defined benefit pension plan are reasonable expenses for ratemaking purposes, then the Company and its outside auditors can reasonably conclude that it is probable that the Commission will allow recovery of prudently incurred cash contributions in future rates. This satisfies SFAS 71 and is consistent with the ratemaking treatment United Water received for its cash contributions to its defined benefit pension plan in Order No. 29838 issued in Case No. UWI-W-04-4.

4. The Company Is Not Seeking A Final Ratemaking Determination In This Case.

The prudency of the Company's cash contributions to its defined benefit pension plan, particularly any proposed cash contributions that exceed minimum ERISA requirements, will always be subject to Commission prudency review and approval in revenue requirement proceedings. Idaho Power is not asking for a determination of those ratemaking items in this application.

IV.
CONCLUSION

In Idaho Power's 2003 general rate case, the Commission reduced the Company's test year pension plan expenses to zero, "reflecting the actual pension plan expenses incurred by the Company" and "to reconcile cash and accrual accounting." (Order 29505, p.21) Idaho Power believes that the Commission's decision to deny inclusion of accrued SFAS 87 expense in Idaho Power's revenue requirement was not intended to preclude recovery of pension costs based upon cash actually contributed to the defined benefit pension plan. The Company's belief in this regard is supported by the Commission's decision to allow United Water to include cash contributions in its revenue requirement. (Order No. 29838). In this Application the Company requests that the Commission issue its order:

(1) Authorizing the Company to account for defined benefit pension expense on a cash basis; and

(2) Authorizing the Company to defer and account for accrued SFAS 87 pension expense as a regulatory asset. The Company will never request a carrying charge be

applied to the deferral of SFAS 87 balance nor will the Company requesting amortization for the SFAS 87 regulatory asset created; and

(3) Authorizing the Company to defer expenses associated with *cash* contributions to the Company's defined benefit pension plan and account for the deferred balance as a regulatory asset. A carrying charge rate and amortization period for the deferred expense associated with cash contributions would be determined in a future proceeding; and

(4) Finally, the Company is requesting that the Commission include language in the final order in this case acknowledging that pension plan contributions are a reasonable part of Idaho Power's cost of service and that it is appropriate for Idaho Power to seek recovery of defined benefit pension costs based on actual cash contributed to the defined benefit pension plan. If the Commission can provide such acknowledgement in the order, then the Company and its outside auditors can reasonably conclude that it is probable that the Commission will allow recovery of prudently incurred cash contributions in future rates. This language will allow the Company to satisfy SFAS 71 requirements provide the customer benefits described in Staff's Comments.

Respectfully submitted this 2nd day of May 2007.

BARTON L. KLINE
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 2nd day of May, 2007, I served a true and correct copy of the within and foregoing upon the following named parties by the method indicated below, and addressed to the following:

Donovan Walker Deputy Attorney General Idaho Public Utilities Commission 472 West Washington Street Post Office Box 83720 Boise, Idaho 83720-0074	( ) U.S. Mail, Postage Prepaid (X) Hand Delivered ( ) Overnight Mail ( ) Facsimile (X) Email Donovan.walker@puc.idaho.gov

Barton L. Kline

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

CASE NO. IPC-E-07-7

IDAHO POWER COMPANY

ATTACHMENT 1

1823YY Other RA - Pension Plan Contributions	10,000,000	
1823XX Other RA - Deferred Pension Expense		10,000,000
(To record the cash contribution* regulatory asset)		

*The contribution amount used is not an actual amount; it is only being used for demonstration purposes.