BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AN ACCOUNTING ORDER CLARIFYING THE ACCOUNTING FOR FUTURE PENSION OBLIGATIONS

CASE NO. IPC-E-07-07

ORDER NO. 30333

On March 20, 2007, Idaho Power Company filed an Application seeking an accounting order to clarify the accounting for future pension obligations. On March 29, 2007, the Commission issued a Notice of Application and Notice of Modified Procedure with a comment deadline of April 19, 2007. Commission Staff filed comments partially agreeing with and partially opposing the Company's Application. No other party filed comments. On May 2, 2007, the Company filed reply comments. With this Order the Commission clarifies the accounting for future pension obligations as more fully stated below.

THE APPLICATION

Idaho Power's Application seeks an accounting order authorizing it to: (1) change from accrual 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. The Company stated that it is not requesting current approval of future ratemaking treatment of deferred expenses associated with the Company's defined benefit pension plans, but is only requesting authority to implement regulatory accounting practices.

Idaho Power accounts for defined benefit pension expense in accordance with Statement of Financial Accounting Standards 87 (SFAS/FAS 87). The Company stated that in its 2003 general rate case, IPC-E-03-13, the Commission did not allow the accrued SFAS 87 amount to be included in the Company's revenue requirement; however, the Commission did not direct the Company to change to a cash method to account for defined benefit pension expense. Additionally, the Company refers to Case No. UWI-W-04-04 where United Water utilized the SFAS 87 accrual methodology, and the Commission determined that using actual cash contributions, not accrued obligations, was the appropriate way to determine the amount to recover in rates for the defined benefit pension expense.

STAFF COMMENTS

Commission Staff reviewed the Company's Application, the accompanying testimony of Lori Smith, as well as previous Commission Orders referenced in the Company's Application. Staff comments reviewed additional background regarding the Company's treatment of pension expense, as well as the present Application and Staff concerns. Staff recommended that the Commission approve that portion of the Company's request which would allow the Company to capitalize the annual SFAS 87 pension expense as a regulatory asset, thus removing it from the Company's income statement. However, Staff opposed and recommended that the Commission deny the Company's request to defer future cash contributions. Staff recommended that the cash contributions be used to offset the regulatory asset created by the capitalization of SFAS 87.

Staff stated that the impact of the Company's proposal would be to remove the SFAS 87 pension expense from its income statement resulting in improved earnings and capitalization ratios. The method in which the Company proposed to remove the SFAS 87 pension expense from its income statement is to defer the expense and report it as a regulatory asset on its balance sheet.

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. Staff stated that over the life of a pension plan, the amount of SFAS 87 pension expense and the amount of cash contributions are theoretically equivalent and, without interference, the SFAS 87 expense and the cash contributions over time will be comparable. Therefore, to address Staff's concerns about SFAS 71, Staff believed it would be permittable to allow the deferral of SFAS 87 pension expense as a regulatory asset if the cash contributions when made are credited as an offsetting entry to that regulatory asset. Given the presumption that the two expenses will ultimately be equivalent and the regulatory asset account will zero out on its own, then the SFAS 71 requirements will be satisfied.

Staff recommended that the Commission allow the Company to capitalize the annual SFAS 87 pension expense by creating a regulatory asset, with the cash contributions used to offset that regulatory asset. Staff recommended denial of the Company's request to defer future cash contributions. Under Staff's proposal, the regulatory asset should not be amortized to customers; instead it would balance over time through journal entries. Staff also recommended that the Commission deny carrying charges on the regulatory asset, and that the ratemaking treatment and recovery of actual pension expense be determined at a later date, presumably when the Company is required to contribute to the plan again.

THE COMPANY'S RESPONSE

On May 2, 2007, the Company filed reply comments that, among other things, identified from the Company's perspective where the Staff and the Company agreed and disagreed regarding the Company's Application. The Company stated that it appeared that both Staff and the Company agreed 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. However, the Company stated that Staff's proposed accounting procedure would not accomplish its intended purpose. The Company asked the Commission to adopt some specific language in the Order for this matter that would allow the Company to satisfy SFAS 71 requirements and provide the customer benefits described in Staff comments. Subsequently, Staff and the Company were able to agree upon some language acceptable to both parties that was proposed to the Commission.

FINDINGS/CONCLUSIONS

The Idaho Public Utilities Commission has jurisdiction over Idaho Power Company, its Application seeking an accounting order to clarify the accounting for future pension obligations, and the issues involved in this case by virtue of Title 61, Idaho Code, including *Idaho Code* §§ 61-129, 61-301, 302, 303, 61-502, 61-503, and 61-524 and the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq*. The Commission continues to find that the public interest may not require a hearing to consider the issues presented in this case, and that issues raised by the Company's filing may be processed by Modified Procedure, i.e., by written submission rather than by hearing. IDAPA 31.01.01.201-204. In so doing, the Commission notes that Modified Procedure and written comments have proven to be an effective means for obtaining public input and participation.

Idaho Power Company requests an accounting order authorizing the Company to (1) account for pension expense on a cash basis and (2) authorizing the Company to defer the expense associated with the pension plan cash contributions and record them as a regulatory asset with actual ratemaking of such regulatory assets to be determined in subsequent revenue requirement proceedings. We find this request to be reasonable as a clarification of the accounting treatment for pension expense.

The Pension Protection Act of 2006 revises the calculation of the 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. Within this proceeding the Company and Staff agreed that allowing the Company to defer accrued SFAS 87 expense and thereby removing the SFAS 87 pension expense from the Company's income statement is reasonable and is properly recorded as a regulatory asset under SFAS 71. The Commission finds this approach to be reasonable and consistent with prior Orders. The Company and Staff also acknowledged that over the lifespan of the Company's defined benefit pension program, accrued SFAS pension expense would match cash contributions. Cash contributions will reduce the deferred regulatory asset. We find that, consistent with prior Commission Orders, the ERISA minimum funding requirement made as a cash contribution may be properly included in the Company's revenue requirement. Any additional cash contributions above the minimum should be evaluated on a case-by-case basis to determine the proper regulatory treatment. This treatment meets the requirements of SFAS 71 to defer these expenses as it is probable that the regulating entity will allow recovery of prudently incurred amounts in future rates. As stated in the Company's Application and Staff comments, we find that the proper ratemaking treatment of such regulatory assets should be determined in subsequent proceedings. When the Company's actuaries notify the Company of ERISA minimum funding requirements, the Company can evaluate the circumstances for ratemaking purposes and make a filing requesting ratemaking treatment, if needed.

ORDER

IT IS HEREBY ORDERED that Idaho Power Company is authorized to account for its defined benefit pension expense on a cash basis, and to defer and account for accrued SFAS 87 pension expense as a regulatory asset. The Company has acknowledged it will not request a carrying charge be applied to the deferral of the SFAS 87 balance nor will it request amortization for the SFAS 87 regulatory asset created. We acknowledge that it is appropriate for the Company to seek recovery in the Company's revenue requirement of reasonable and prudently incurred pension expense based on actual cash contributions.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *See Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 1st day of June 2007.

Paul Kjellander

PAUL KJELLANDER, PRESIDENT

Marsha H. Smith

MARSHA H. SMITH, COMMISSIONER

Mack A. Redford

MACK A. REDFORD, COMMISSIONER

ATTEST:

Jean D. Jewell

Jean D. Jewell
Commission Secretary

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