DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER REDFORD
COMMISSION SECRETARY
COMMISSION STAFF

FROM: DONOVAN E. WALKER

DATE: APRIL 20, 2007

SUBJECT: IDAHO POWER'S APPLICATION FOR AN ACCOUNTING ORDER CLARIFYING THE ACCOUNTING FOR FUTURE PENSION OBLIGATIONS – CASE NO. IPC-E-07-07

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 a 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. Following the Company's reply, Staff and the Company met and were able to agree on some mutually acceptable language for the Commission's consideration.

THE APPLICATION

Idaho Power seeks an 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 states 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 states that, in its 2003 general rate case, IPC-E-03-03, 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 the previous Commission Orders referenced in the Company's Application. Staff's comments review 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.

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. The regulatory asset would accumulate each year as the SFAS 87 expense is calculated and debited to the regulatory asset account.

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. In other words, Staff believes that if the Company's Application were approved, they would be deferring the SFAS 87 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 the test year.

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. Essentially, 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's comments.

AGREED PROPOSED LANGUAGE

Subsequent to both parties filing of comments, Staff and the Company agreed to meet and discuss the differences they were having with regard to the Company's Application, as it appeared that the two were in agreement on the desired outcome. The parties agreed to submit the following as "agreed" language and if the Commission is inclined to grant the Company's Application, both parties ask for the inclusion of the following language in the Order.

Idaho Power Company requests an accounting order authorizing the Company to (1) account for pension expense on a cash basis and (2) authorize 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.

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 agree that allowing the Company to defer accrued SFAS 87 expense and thereby remove 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 Company and Staff acknowledge that over the lifespan of the Company's defined benefit pension program, accrued SFAS pension expense will match cash contributions. Cash contributions will reduce the deferred regulatory asset. Consistent with prior Commission Orders, the ERISA minimum funding requirement made as a cash contribution will 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 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 will evaluate the circumstances for ratemaking purposes and make a filing requesting ratemaking treatment.

In summary, the Company and Staff both recommend that the Commission issue its Order: (1) authorizing the Company to account for defined benefit pension expense on a cash basis; (2) authorizing the Company to defer and account for accrued SFAS 87 pension expense as a regulatory asset. The Company states it will never request a carrying charge be applied to the deferral of the SFAS 87 balance nor will the Company be requesting amortization for the SFAS 87 regulatory asset created; and (3) acknowledge that it is appropriate for Idaho Power to seek recovery in the Company's revenue requirement of reasonable and prudently incurred pension expense based on actual cash contributions.

COMMISSION DECISION

Does the Commission wish to approve the Company's Application and adopt the proposed language agreed to between the Company and the Staff?

Does the Commission wish to address any other issue or matter regarding this Application?

Donovan E. Walker