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LISA D. NORDSTROM
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October 20, 2009

VIA HAND DELIVERY

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-09-29
IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AUTHORITY TO IMPLEMENT A TRACKING MECHANISM TO RECOVER ITS DEFINED BENEFIT PENSION EXPENSE.

Dear Ms. Jewell:

Enclosed please find for filing an original and seven (7) copies of Idaho Power's Application in the above matter.

In addition, enclosed are an original and eight (8) copies each of the testimonies of Timothy E. Tatum and Ken W. Petersen that are being submitted in support of Idaho Power's enclosed filing. One copy of each of the testimonies has been designated as the "Reporter's Copy." In addition, a disk containing Word versions of each of the above testimonies has been provided for the Reporter and has been marked accordingly.

Very truly yours,

Lisa D. Nordstrom

Lisa D. Nordstrom

LDN:csb
Enclosures

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Attorneys for Idaho Power Company

Street Address for Express Mail:
1221 West Idaho Street
Boise, Idaho 83702

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AUTHORITY TO IMPLEMENT A TRACKING MECHANISM TO RECOVER ITS DEFINED BENEFIT PENSION EXPENSE.	)	CASE NO. IPC-E-09-29 APPLICATION

Idaho Power Company ("Idaho Power" or the "Company" or the "Applicant"), in accordance with *Idaho Code* §§61-502, -503, -524, and RP 052, hereby respectfully makes Application to the Idaho Public Utilities Commission ("IPUC" or the "Commission") for an Order on or before February 12, 2010, approving a mechanism to track and recover annually the Company's defined benefit pension expenses for recovery in subsequent proceedings. This Application does not seek current approval of future expenses associated with the Company's qualified defined benefit pension plan, nor does it request that current rates be changed at this time.

In support of this Application, Idaho Power represents as follows:

I. BACKGROUND

1. Idaho Power's defined benefit pension plan was established in 1943 and continues as part of the Company's total compensation package for eligible employees. Idaho Power's Fiduciary Committee controls and manages the operation and administration of the plan. The Bank of New York serves as the trustee of the plan and, together with several investment managers, manages the plan's investments under the oversight of the Fiduciary Committee. The plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended. As of January 1, 2009, Idaho Power had 2,085 active employees in the plan and a total of 3,533 plan participants.

2. Idaho Power accounts for defined benefit pension expense in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS" or "FAS") 87, *Employers' Accounting for Pensions*; SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*; SFAS No. 132(R), *Employers' Disclosures about Pensions and Other Postretirement Benefits*; and SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)* as those provisions have been adopted into the Accounting Standards Codification of the Financial Accounting Standards Board.

3. Based upon a 1984 test year, the Commission issued Order No. 20610 in July 1986 that allowed Idaho Power to recover defined benefit pension expense based on actual contributions made during the test year. This included amounts that were

charged to operations and maintenance, net of known and measurable adjustments. During the intervening years following the 1984 test year and prior to the 1994 general rate case, the allowed defined benefit pension expense included in rates was approximately $4.9 million per year.

4. In 1986, the Company adopted SFAS 87. That Standard addressed pension funding issues from an accrual perspective in an attempt to better match the compensation cost of an employee's pension benefits with the time period over which the employee earns those benefits and to provide for greater comparability between companies from year to year. Prior to the adoption of SFAS 87, pension expense was based on the amount a company chose to contribute to its plans during the year. Since the adoption of SFAS No. 87 in 1986, the Company has filed general rate cases in 1994 and 2003 that dealt with pension funding issues. With the Company's 1994 general rate case filing, the Company included in test year O&M expenses pension costs based upon the SFAS 87 accrual perspective rather than cash contributed to the plan. The amount approved was approximately $2 million per year.

5. In its 2003 general rate case, Case No. IPC-E-03-13, Idaho Power again included in its test year defined benefit pension plan expense derived from accrual methodology provided for in SFAS 87. The Commission Staff recommended that the Commission reject the accrued SFAS 87 amount to be included in the Company's revenue requirement because the Company did not have any actual cash contribution requirements during the test year. The Commission found Staff's proposed adjustment to be appropriate and denied any recovery of defined benefit pension expense. However, in its Order No. 29505 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 to account for defined benefit pension expense.

6. In 2007, Idaho Power filed an application with the Commission (Case No. IPC-E-07-07) seeking clarification that the Company could expect to recover pension costs based on cash contributed to the plan and account for defined benefit pension expenses on a cash basis rather than the accrual basis that the Company had used from 1994 until 2003. 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 also requested authority to defer future cash contributions it would make to its defined benefit pension plan and to record these future defined benefit pension plan cash contributions as regulatory assets.

7. On June 1, 2007, the Commission issued Order No. 30333 authorizing the Company 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. As part of its Order, the Commission acknowledged that it is appropriate for the Company to seek recovery in the Company's revenue requirement of reasonable and prudently incurred defined benefit pension expense based on actual cash contributions. To date, the Company has made no cash contributions and therefore has not made a request for recovery. The Commission found it reasonable for Idaho Power to defer the expense associated with the pension plan cash contributions and record them as a regulatory asset. It also stated on page 4 of Order No. 30333, "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."

8. Idaho Power's actuary has informed the Company that a contribution is required for the tax year beginning January 1, 2009. The required contribution will be $5,418,662 if paid by October 15, 2009, but if not paid by October 15, 2009, interest will accrue until the extended due date for Idaho Power's federal income tax return of September 15, 2010. The Company did not make an October 15, 2009, payment.

II. TRACKING MECHANISM

9. The requirement to make cash payments is expected to continue over the next several years, but may vary dramatically from year to year. Therefore, Idaho Power requests approval for a mechanism that will ensure that customers pay no more and no less than the actual cash payments currently made by the Company to fund its defined benefit pension expense.

10. The Company requests authorization to implement a defined benefit pension expense tracking mechanism that has similar components to those of the Power Cost Adjustment ("PCA") mechanism. That is, the proposed mechanism would include a forecast component and true-up component. As described in the testimony of Timothy E. Tatum that accompanies this Application, the Company would recover through rates its forecasted annual cash payments toward defined benefit pension expense based upon an actuarial determination of those anticipated required contributions. Each year, the Company would compare the revenue collected through the tracking mechanism's forecast component rate to the actual cash contributions to defined benefit pension expense during the period. Any difference would be either

refunded or collected from customers over the subsequent 12-month period in the true-up component. The Company recommends that a carrying charge equal to the Commission-approved interest rate for deposits be applied each month based on the balance in the regulatory asset account.

11. The Company proposes a March 1 through February 28 (February 29 in leap years) annual test period with rate adjustments becoming effective each June 1. This timing will allow the Company to minimize the number of rate adjustments that customers experience annually. The Company proposes to make an annual filing under the tracking mechanism on or before April 7 of each year with the associated rate adjustment effective June 1.

12. Idaho Power requests that it be allowed to recover its defined benefit pension expense as a percentage rate applied to all base revenue in a manner similar to the Energy Efficiency Rider, Schedule 91. Under the proposed approach, the percentage rate would be adjusted annually to a level necessary to recover the projected annual defined benefit pension expense and the prior year's true-up amount determined under the tracking mechanism. This approach will ensure that pension cost recovery is not disproportionately assigned to high load factor customers as would be the case under a flat energy-only charge. Attachment No. 1 to this Application contains the Company's proposed Schedule 53 detailing the purpose and applicability of the proposed tracking mechanism.

13. At this time, Idaho Power is seeking only the Commission's approval of a pension cost recovery mechanism that will allow for the rate recovery concurrent with future cash contributions to the Company's defined benefit pension plan. Should the

Commission approve this request, the Company intends to file a request at a later date to recover defined benefit pension expense based on projected actual cash contributions.

III. ACCOUNTING TREATMENT

14. In order to qualify for deferral, SFAS 71 requires that the utility be able to demonstrate that "future revenues will be provided to permit recovery of the previously incurred cost." In order to meet the conditions for deferring pension costs under SFAS 71, some form of a mechanism must be in place that assesses whether the actual costs during the recovery period exceeded the amount in rates, tracks any shortfall or excess, and adjusts rates accordingly.

15. Idaho Power believes that the proposed tracking mechanism would meet that requirement. Absent such a tracking mechanism, inclusion of pension contributions as test year expenses in a general rate case will most likely cause pension expense to become ineligible for deferral under SFAS 71. Derecognition of its deferred pension expense regulatory asset would result in serious negative consequences to Idaho Power. At a minimum, the Company would be forced to write off the $33 million balance of deferred pension expense (as of September 30, 2009). Idaho Power's equity would also likely decrease by $92 million in addition to the retained earnings impact of derecognizing the regulatory asset for deferred pension expense. Both of these accounting changes could have negative impacts on customers.

16. The specific accounting entries necessary to effectuate the proposed pension tracking mechanism are detailed in the testimony and exhibit of Ken W. Peterson that accompanies this Application.

IV. MODIFIED PROCEDURE

17. Idaho Power believes that a hearing may not necessary to consider the issues presented herein and respectfully requests that this Application be processed under Modified Procedure, i.e., by written submissions rather than by hearing. RP 201, *et seq*. However, in support of this Application, Idaho Power has enclosed the direct testimony of Timothy E. Tatum and Ken W. Petersen. The Company stands ready to present their testimony in support of this Application in a technical hearing if the Commission determines that such a hearing is required.

V. COMMUNCIATIONS AND SERVICE OF PLEADINGS

18. Communications and service of pleadings with reference to this Application should be sent to the following:

Lisa D. Nordstrom Barton L. Kline Idaho Power Company P.O. Box 70 Boise, Idaho 83707 lnordstrom@idahopower.com bkline@idahopower.com	Tim Tatum Greg Said Idaho Power Company P.O. Box 70 Boise, Idaho 83707 ttatum@idahopower.com gsaid@idahopower.com

VI. REQUEST FOR RELIEF

19. Idaho Power respectfully requests that the Commission issue an Order approving a mechanism to track and recover annually the Company's pension expenses for recovery in subsequent proceedings. The Company further requests that the Commission use its best efforts to provide a final order on or before February 12, 2010, so that the first forecast filing can be prepared before April 7, 2010.

DATED at Boise, Idaho this 20th day of October 2009.

Lisa D. Nordstrom

Lisa D. Nordstrom
Attorney for Idaho Power Company

BEFORE THE

IDAHO PUBLIC UTILITIES COMMISSION

CASE NO. IPC-E-09-29

IDAHO POWER COMPANY

ATTACHMENT NO. 1

SCHEDULE 53
PENSION EXPENSE ADJUSTMENT

APPLICABILITY

This schedule is applicable to all Idaho retail Customers served under the Company's schedules and Special Contracts. The Pension Expense Adjustment is designed to recover the Company's defined benefit pension plan expenditures.

PROJECTED PENSION EXPENSE

The Projected Pension Expense is the Company's forecasted annual cash payments toward defined benefit pension expense based on an actuarial determination for the time period beginning March 1 each year and ending the following February 29 on Leap Years, and February 28 on all other years.

PENSION EXPENSE TRUE-UP

The Pension Expense True-up is based upon the difference between the previous Projected Pension Expense and the actual cash contributions to defined benefit pension expense.

PENSION EXPENSE ADJUSTMENT

The Pension Expense Adjustment is the sum of: 1) the Projected Pension Expense, and 2) the Pension Expense True-up.

MONTHLY CHARGE

The Monthly Charge is equal to the applicable Pension Expense Adjustment percentage times the sum of the monthly billed charges for the base rate components. The monthly Pension Expense Adjustment percentage is X.XX%.

EXPIRATION

The Pension Expense Adjustment included on this schedule will expire May 31, 2011.

Attachment No. 1
Case No. IPC-E-09-29
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