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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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

IDAHO POWER COMPANY

DIRECT TESTIMONY

OF

TIMOTHY E. TATUM

1 Q. Please state your name and business address.

2 A. My name is Timothy E. Tatum and my business
3 address is 1221 West Idaho Street, Boise, Idaho.

4 Q. By whom are you employed and in what
5 capacity?

6 A. I am employed by Idaho Power Company ("Idaho
7 Power" or "Company") as a Manager of Cost of Service in the
8 Pricing and Regulatory Services Department.

9 Q. Please describe your educational background.

10 A. I received a Bachelor of Business
11 Administration degree in Economics from Boise State
12 University in 2001. In 2005, I earned a Master of Business
13 Administration degree from Boise State University. I have
14 also attended electric utility ratemaking courses,
15 including "Practical Skills for The Changing Electrical
16 Industry," a course offered through New Mexico State
17 University's Center for Public Utilities; "Introduction to
18 Rate Design and Cost of Service Concepts and Techniques"
19 presented by Electric Utilities Consultants, Inc.; and
20 Edison Electric Institute's "Electric Rates Advanced
21 Course."

22 Q. Please describe your work experience with
23 Idaho Power.

1 A. I began my employment with Idaho Power in
2 1996 as a Customer Service Representative in the Company's
3 Customer Service Center. Over the first two years, I
4 handled customer phone calls and other customer-related
5 transactions. In 1999, I began working in the Customer
6 Account Management Center where I was responsible for
7 customer account maintenance in the area of billing and
8 metering.

9 In June of 2003, after seven years in customer
10 service, I began working as an Economic Analyst on the
11 Energy Efficiency Team. As an Economic Analyst, I
12 maintained proper accounting for Demand-Side Management
13 ("DSM") expenditures, prepared and reported DSM program
14 accounting and activity to management and various external
15 stakeholders, conducted cost-benefit analyses of DSM
16 programs, and provided DSM analysis support for the
17 Company's 2004 Integrated Resource Plan ("IRP").

18 In August of 2004, I accepted a position as a
19 Pricing Analyst in Pricing and Regulatory Services. As a
20 Pricing Analyst, I provided support for the Company's
21 various regulatory activities, including tariff
22 administration, regulatory ratemaking and compliance
23 filings, and the development of various pricing strategies
24 and policies.

1 In August of 2006, I was promoted to Senior Pricing
2 Analyst. As a Senior Pricing Analyst, my responsibilities
3 expanded to include the development of complex financial
4 studies to determine revenue recovery and pricing
5 strategies, including the preparation of the Company's
6 cost-of-service studies.

7 In September of 2008, I was promoted to my current
8 position, Manager of Cost of Service. As Manager of Cost
9 of Service, I oversee the Company's cost-of-service
10 activities, such as power supply modeling, jurisdictional
11 separation studies, class cost-of-service studies, and
12 marginal cost studies.

13 Q. What is the Company requesting in this case?

14 A. The Company is requesting that the
15 Commission approve the implementation of a pension cost
16 recovery mechanism that aligns with the accounting
17 treatment approved by the Commission in Order No. 30333.

18 Q. What is the scope of your testimony in this
19 proceeding?

20 A. I will summarize the last twenty-five years
21 of regulatory treatment for recovery of defined benefit
22 pension plan expense in rate proceedings. I will then
23 describe the Company's proposal for a pension cost recovery

1 mechanism that aligns with the accounting treatment
2 approved by the Commission in Order No. 30333.

3 **BACKGROUND**

4 Q. Please describe the Company's regulatory
5 treatment to recover defined benefit pension plan expense
6 in rates following 1984.

7 A. Based upon a 1984 test year, the Commission
8 issued Order No. 20610 in July 1986 that allowed Idaho
9 Power to recover defined benefit pension expense based on
10 actual contributions made during the test year. This
11 included amounts that were charged to operations and
12 maintenance, net of known and measurable adjustments.
13 During the years following the 1984 test year and prior to
14 the 1994 general rate case, the allowed defined benefit
15 pension expense included in rates was approximately \$4.9
16 million per year based upon test year cash contributions
17 for pension funding.

18 Q. Were there any events that altered the
19 Company's proposed methodology for addressing defined
20 benefit pension plan expenses in its next general rate case
21 in 1994?

22 A. Yes, in 1986, the Company adopted Statement
23 of Financial Accounting Standards ("SFAS") No. 87. That
24 standard addressed pension funding issues from an accrual

1 perspective in an attempt to better match "the compensation
2 cost of an employee's pension benefits" with the time
3 period over which the employee earns those benefits and to
4 provide for greater comparability between companies and
5 also from year to year. Prior to the adoption of SFAS 87,
6 pension expense was based on the amount a company chose to
7 contribute to its plans during the year. With the
8 Company's 1994 general rate case filing, the Company
9 included in test year O&M expenses pension costs based upon
10 the SFAS 87 accrual method rather than cash contributed to
11 the plan. The amount approved by the Commission based upon
12 the accrual method was approximately \$2 million per year.

13 Q. What ratemaking treatment for recovery of
14 defined benefit pension plan expense did the Commission
15 adopt in 2003?

16 A. In the 2003 general rate case, Case No. IPC-
17 E-03-13, Idaho Power again included in its test year
18 defined benefit pension plan expense derived from accrual
19 methodology provided for in SFAS 87. The Commission Staff
20 recommended that the Commission reject the accrued SFAS 87
21 amount to be included in the Company's revenue requirement
22 because the Company did not have any actual cash
23 contribution requirements during the test year. The
24 Commission found Staff's proposed adjustment to be

1 appropriate and denied any recovery of defined benefit
2 pension expense. However, in its Order No. 29505 directing
3 the removal of the accrued amounts from the Company's
4 revenue requirement, the Commission did not direct the
5 Company to change to a cash method to account for defined
6 benefit pension expense.

7 Q. Did the Company seek clarification of Order
8 No. 29505?

9 A. Yes. In 2007, Idaho Power filed an
10 application with the Commission (Case No. IPC-E-07-07)
11 seeking clarification that the Company could expect to
12 recover pension costs based on cash contributed to the plan
13 and account for defined benefit pension expenses on a cash
14 basis rather than the accrual basis that the Company had
15 used from 1994 until 2003. In conjunction with the
16 Company's request for clarification of its authority to
17 utilize cash basis accounting for recovery of defined
18 benefit pension expense, the Company also requested
19 authority to defer future cash contributions it would make
20 to its defined benefit pension plan and to record these
21 future defined benefit pension plan cash contributions as
22 regulatory assets.

23 On June 1, 2007, the Commission issued Order No.
24 30333 authorizing the Company to account for its defined

1 benefit pension expense on a cash basis, and to defer and
2 account for accrued SFAS 87 pension expense as a regulatory
3 asset. As part of its Order, the Commission acknowledged
4 that it is appropriate for the Company to seek recovery in
5 the Company's revenue requirement of reasonable and
6 prudently incurred defined benefit pension expense based on
7 actual cash contributions. To date, the Company has made
8 no cash contributions and therefore has not made a request
9 for recovery. The Commission found it reasonable for Idaho
10 Power to defer the expense associated with the pension plan
11 cash contributions and record them as a regulatory asset.
12 It also stated on page 4 of Order No. 30333, "When the
13 Company's actuaries notify the Company of ERISA minimum
14 funding requirements, the Company can evaluate the
15 circumstances for ratemaking purposes and make a filing
16 requesting ratemaking treatment, if needed."

17 Q. Has the Company's actuary informed Idaho
18 Power of a minimum required contribution?

19 A. Yes. According to the testimony of Company
20 witness Ken Petersen, Idaho Power's actuary has informed
21 the Company that a contribution is required for the tax
22 year beginning January 1, 2009.

23 Q. How much is the 2009 required contribution?

1 A. The Company proposes the implementation of a
2 defined benefit pension expense tracking mechanism that has
3 similar components to those of the Power Cost Adjustment
4 ("PCA") mechanism. That is, the proposed mechanism would
5 include a forecast component and true-up component. Under
6 the proposed mechanism, the Company would recover through
7 rates its forecasted annual cash payments toward defined
8 benefit pension expense based upon an actuarial
9 determination of those anticipated required contributions.
10 Each year, the Company would compare the revenue collected
11 through the tracking mechanism's forecast component rate to
12 the actual cash contributions to the defined benefit
13 pension plan during the period. Any difference would be
14 either refunded or collected from customers over the
15 subsequent 12-month period in the true-up component. I
16 will cover the design of the proposed mechanism in greater
17 detail later in my testimony.

18 Q. Why is Idaho Power pursuing the recovery of
19 pension costs through the use of a tracking mechanism
20 rather than a more "traditional approach" of including such
21 costs in the Company's revenue requirement as part of a
22 general rate case proceeding?

23 A. The Company is requesting a tracking
24 mechanism in order to facilitate revenue recovery that is

1 required in 2010 and beyond. Volatility and uncertainty in
2 the financial markets are expected to translate into
3 increased volatility in the amount and frequency of
4 required cash payments toward defined benefit pension
5 expense. This increase in volatility is a major factor
6 contributing to the Company's desire to implement a defined
7 benefit pension expense tracking mechanism.

8 Q. What aspects of a tracking mechanism make it
9 the preferred cost recovery method when facing the volatile
10 conditions anticipated by the Company?

11 A. The recovery of cash contributions for
12 defined benefit pension expense through the proposed
13 tracking mechanism is in the best interest of Idaho Power
14 and its customers. Because the proposed tracking mechanism
15 would include an annual true-up component, the Company and
16 its customers would be protected against any over- or
17 under-funding of pension costs that would exist under the
18 "traditional approach" that recovers pension expense in
19 base rates set during a general rate case.

20 Q. Are there any other factors that contributed
21 to the Company's desire to implement a defined benefit
22 pension expense tracking mechanism?

23 A. Yes. As Mr. Petersen points out in his
24 testimony, the recovery of defined benefit pension expenses

1 through a tracking mechanism will also allow the Company to
2 comply with Generally Accepted Accounting Principles
3 ("GAAP") requirements for cash basis accounting of defined
4 benefit pension expense and deferral of SFAS 158 equity
5 impacts.

6 Q. What test period does the Company plan to
7 use under the proposed tracking mechanism?

8 A. The Company proposes a March 1 through
9 February 28 (February 29 in leap years) annual test period
10 with rate adjustments becoming effective each June 1. This
11 timing will allow the Company to minimize the number of
12 rate adjustments that customers experience annually.

13 Q. When does the Company propose making its
14 annual filing to request recovery of defined benefit
15 pension expenses under the tracking mechanism?

16 A. The Company proposes to make an annual
17 filing under the tracking mechanism on or before April 7 of
18 each year with the associated rate adjustment effective
19 June 1. According to Mr. Petersen in his testimony, an
20 actuarial determination of the projected cash contributions
21 during the test period will become available during the
22 month of March of each year. An April 7 filing date will
23 allow the Company the required time to evaluate the
24 actuarial determinations and to prepare its annual request.

1 Q. Does Idaho Power recommend applying a
2 carrying charge to any balances that may accumulate under
3 the tracking mechanism?

4 A. Yes, the Company recommends that a carrying
5 charge equal to the Commission-approved interest rate for
6 deposits be applied each month based on the balance in the
7 regulatory asset account. Like the PCA, in a given month,
8 this charge could be a benefit or a cost, depending on
9 whether cash paid to date exceeds or is less than
10 collections to date.

11 Q. What type of rate design does the Company
12 plan to apply to recover the pension costs under the
13 proposed tracking mechanism?

14 A. When defined benefit pension expense was
15 included in the Company's revenue requirement in prior
16 years, the expense was ultimately collected through each of
17 the base rate components (i.e., service charge, demand
18 charge, and energy charge) according to the same
19 proportions as labor expense. To be consistent with this
20 prior treatment, the Company proposes to recover its
21 defined benefit pension expense as a percentage rate
22 applied to all base revenue in a manner similar to the
23 Energy Efficiency Rider, Schedule 91. Under the proposed
24 approach, the percentage rate would be adjusted annually to

1 a level necessary to recover the projected annual defined
2 benefit pension expense and the prior year's true-up amount
3 determined under the tracking mechanism. This approach
4 will ensure that pension cost recovery is not
5 disproportionately assigned to high load factor customers,
6 as would be the case under a flat energy only charge.

7 Q. Does the Company intend to include as part
8 of its Idaho tariff a separate service schedule detailing
9 the purpose, applicability, and effective rate under the
10 proposed tracking mechanism?

11 A. Yes. Included as Exhibit No. 1 to my
12 testimony is the Company's proposed Schedule 53 that
13 details the purpose and applicability of the proposed
14 tracking mechanism. Schedule 53 is provided for
15 illustrative purposes only. An official Schedule 53 would
16 be filed in April and would include the effective
17 percentage rate to be applied to customers' bills beginning
18 June 1.

19 Q. How does the Company propose that the
20 recovery of pension costs appear on customers' bills?

21 A. Because the Company is proposing a separate
22 percentage rate be applied to all base rate revenue, it
23 will be necessary to list the monthly charge associated

1 with the pension cost tracking mechanism as a separate item
2 on customers' bills.

3 Upon review of a number of bill presentment
4 approaches applied by other utilities in the western region
5 that have similar tracker mechanisms and/or other
6 regulatory adjustments, the Company discovered that some of
7 these utilities have additional generic line items which
8 appear on the customer's bill summarizing the cumulative
9 effect of multiple rate adjustments. For example, Public
10 Service Company of New Mexico ("PNM") lists on its service
11 schedules under billing charges, "Other Applicable Riders."
12 Any other PNM riders that may apply to this tariff shall be
13 billed in accordance with the terms of those riders. They
14 have approximately 15 various riders as well including the
15 Palo Verde Refinancing Credit Rider, SO2 Credit, Energy
16 Efficiency Rider, etc. With this approach in mind, the
17 Company recommends that the monthly charge be listed on
18 customers' bills under the label "Other Applicable Expense
19 Trackers." The recommended title is intended to allow for
20 additional riders or cost tracking mechanisms to be
21 implemented without requiring additional line items to be
22 added to customers' bills.

23 Q. Does this conclude your testimony?

24 A. Yes, it does.

BEFORE THE
IDAHO PUBLIC UTILITIES COMMISSION

CASE NO. IPC-E-09-29

IDAHO POWER COMPANY

TATUM, DI
TESTIMONY

EXHIBIT 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.