

DECISION MEMORANDUM

TO: COMMISSIONER KEMPTON
COMMISSIONER SMITH
COMMISSIONER REDFORD
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL

FROM: SCOTT WOODBURY
DEPUTY ATTORNEY GENERAL

DATE: NOVEMBER 6, 2009

SUBJECT: CASE NO. IPC-E-09-29 (Idaho Power)
DEFINED BENEFIT PENSION EXPENSE – RECOVERY MECHANISM

On October 20, 2009, Idaho Power Company (Idaho Power; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting approval on or before February 12, 2010 of a mechanism to track and recover annually the Company's defined benefit pension expenses. The Application does not seek current approval of future expenses associated with the Company's qualified defined benefit pension plan, nor is it requesting that current rates be changed at this time.

BACKGROUND

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. As of January 1, 2009, Idaho Power had 2,085 active employees in the plan and a total of 3,533 plan participants.

In 1986, the Company adopted Statement of Financial Accounting Standards (SFAS) 87. That Standard addresses 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.

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 the 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 in Order No. 29505 denied any recovery of defined benefit pension expense.

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.

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. The Commission also stated "when the Company's actuaries notify the Company of Employee Retirement Income Security Act of 1974 (ERISA) minimum funding requirements, the Company can evaluate the circumstances for ratemaking purposes and make a filing requesting ratemaking treatment, if needed."

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.

TRACKING MECHANISM

The requirement to make cash payments, Idaho Power contends, is expected to continue over the next several years, but may vary dramatically from year to year. Therefore, 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 reflected in its 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 year. 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.

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. 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.

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. Attachment 1 to the Application contains the Company's proposed Schedule 53 detailing the purpose and applicability of the proposed tracking mechanism.

ACCOUNTING TREATMENT

In order to qualify for deferral, SFAS 71 requires that a 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.

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 contends it 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.

The Company's Application is accompanied by the supporting testimony of Company witnesses Timothy E. Tatum, Manager of Cost of Service in the Pricing and Regulatory Services Department, and Ken W. Peterson, Corporate Controller.

COMMISSION DECISION

Idaho Power recommends that its Application be processed pursuant to Modified Procedure, i.e., by written submission rather than by hearing. Reference Commission Rules of Procedure, IDAPA 31.01.01.201-204. The Company 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. Staff is still assessing the Company's Application, yet concurs with the recommended procedure. Does the Commission find Modified Procedure to be preliminarily acceptable in Case No. IPC-E-09-29?



Scott Woodbury
Deputy Attorney General

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