

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	
OF IDAHO POWER COMPANY TO)	CASE NO. IPC-E-10-08
INCREASE ITS RATES FOR ELECTRIC)	
SERVICE TO RECOVER ITS 2010 CASH)	
CONTRIBUTION TO DEFINED BENEFIT)	ORDER NO. 31091
PENSION EXPENSE)	

On March 15, 2010, Idaho Power Company filed an Application for an order approving an increase in rates, effective June 1, 2010, to allow recovery of the Company's 2010 cash contribution to its defined benefit pension expenses. In February 2010, the Commission issued Order No. 31003 directing the Company to establish a balancing account to track the difference between cash amounts contributed to its pension plan and the amounts included in rates. The Company's Application states that its actuary has determined that a cash contribution is necessary to its pension plan for the year beginning January 1, 2009. The Company expects the contribution amount to be \$5,822,145 as of September 15, 2010. The amount allocated to the Idaho jurisdiction, minus a small reimbursement from a separate IDACORP subsidiary, is \$5,416,796.

Idaho Power's Application seeks approval of \$5,416,796 in pension cost recovery over a one-year amortization period to allow recovery contemporaneous with the Company's 2010 cash contributions to the defined benefit pension plan. The Company proposes to proportionately divide the Idaho-allocated share of the 2010 cash pension payments by total Idaho base revenues forecast for the period June 2010 through May 2011. The Company also proposes to recover the 2010 contributions by an equal percentage rate applicable to all base billing components within each customer class rate schedule. This approach results in a rate increase of .77% for each class of customers served by Idaho Power. The Company's proposed revised tariff sheets are Attachment 1 to its Application.

On April 22, 2010, the Commission issued a Notice of Application and Notice of Modified Procedure to establish a comment period that ended on May 13, 2010. Approximately 22 customers of Idaho Power filed written comments all of which oppose any increase in rates. The comments reflect a concern that customers should not pay for increases in pension benefits,

especially in the current economic conditions. Some customers stated that customers should not have to pay for pension benefits at all.

Written comments were also filed by Commission Staff. Staff reviewed the Company's Application as well as Commission Orders to determine that the Company's Application is consistent with previous Commission directives. For example, in Order No. 30333, the Commission stated that "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 No. 30333, p. 4. The Company's actuaries notified the Company that a cash contribution in the amount of \$5,092,774 was due to the pension plan on January 1, 2009, and the amount increases until the final payment amount is due on September 15, 2010. When Idaho Power was notified that a contribution was necessary, it filed a request with the Commission for authority to implement a tracking mechanism similar to the Company's Power Cost Adjustment. The Commission denied a tracking mechanism for pension expenses, but did approve a regulatory balancing account in which the deferred cash contributions could be recovered in rates through amortization. Order No. 31003, pp. 10-11. The Company's Application in this case is consistent with those Commission directives. Accordingly, Staff supports the Company's Application to increase its rates by 0.77% to fund its employee pension plan contribution in the amount of \$5,416,796.

Staff recommended a change in the amortization calculation, and also suggested a review of the reasonableness of continued customer-supported contributions to Idaho Power's pension plan. The Company requested a 12-month amortization period to recover the amount contributed as of September 15, 2010. The Company's amortization calculation is based on monthly forecasted revenues from June 1, 2010 through May 31, 2011. Staff recommended the Company instead use a straight-line amortization rate, which would provide a monthly amortization expense of \$451,400.

Staff noted that the Company expects continued large contributions each year to the benefit pension plan, and expressed concern about continued recovery of increasing costs from Idaho Power's customers. Because the pension plan is a defined benefit plan, payments to retired employees are determined by a formula rather than the performance of the invested funds in the plan. Accordingly, the Company bears all of the investment risk, which is passed on to its

customers. When the investments underperform, customers bear the burden of the increased contributions recovered through their rates. Staff recommended the Company, Staff and other interested parties examine (a) the appropriate investment risks that should be passed on to customers; (b) if shareholders or employees should be assigned a portion of the investment risk; and (c) if another type of retirement plan might be preferable.

COMMISSION FINDINGS

Based on the record presented in this case, the Commission has determined to approve the Company's Application to increase its rates by 0.77% to fund its employee pension plan contribution in the amount of \$5,416,796. The Application was filed consistent with earlier Commission Orders, and thus it is appropriate to approve recovery of the amount the Company will contribute to its pension plan as of September 15, 2010. We also approve a straight-line amortization period of 12 months to recover the deferred amount contributed as of September 15, 2010, to be in the regulatory asset account.

Idaho Power is advised that, previous orders notwithstanding, approval of the Company's pension contributions in this case does not guarantee Commission approval of future pension plan contributions. Authority for the balancing account and regulatory account remain in place. However, further justification is required before additional rate recovery for future contributions will be authorized. During the next three years, Idaho Power anticipates additional payments to its employee pension plan of approximately \$68 million. Staff Comments, p. 4. During 2014-2018, the payments may total nearly \$157 million. *Id.* It is unreasonable for Idaho Power's customers to be solely responsible for large contributions to the Company's defined benefit pension plan. Many employers in recent years have replaced their defined benefit plans with pension programs that place greater responsibility and investment risks on employees. Idaho Power must similarly consider changes to its retirement plan and address shareholder and employee liabilities in the assignment of pension plan investment risk. The Commission will not approve recovery of additional pension plan contributions from customers without evidence that Idaho Power has carefully reviewed alternatives to reduce the burden placed on customers.

ORDER

IT IS HEREBY ORDERED that the Application of Idaho Power Company to increase its rates by 0.77% to fund its employee pension plan contribution in the amount of

\$5,416,796 is approved. The Commission also directs a straight-line amortization over 12 months to recover the contributions deferred in the regulatory asset account.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this case 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 or in interlocutory Orders previously issued in this case. 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 28th day of May 2010.


JIM D. KEMPTON, PRESIDENT


MARSHA H. SMITH, COMMISSIONER


MACK A. REDFORD, COMMISSIONER

ATTEST:


Jean D. Jewell
Commission Secretary

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