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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY TO INCREASE ITS RATES FOR ELECTRIC SERVICE TO RECOVER ITS 2010 CASH CONTRIBUTION TO DEFINED BENEFIT PENSION EXPENSE.	**CASE NO. IPC-E-10-8** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Weldon B. Stutzman, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure issued in Order No. 31055 on April 22, 2010, submits the following comments.

BACKGROUND

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.

STAFF ANALYSIS

Staff has reviewed the Company's Application and the testimony and exhibits of Jeanette Bowman, along with other information provided by the Company and third parties and does not object to the Company's request to increase rates by 0.77% or $5,416,796 annually to fund its employee pension plan. Although Staff supports the increase in this case, Staff is also concerned about the implicit risks faced by customers due to the volatility of contributions required for defined benefit pension plans.

The Company's Application complies with the directives previously issued by this Commission. Idaho Power has not made a cash contribution to its pension plan since the 1994 plan year, and in the subsequent rate case, Case No. IPC-E-03-13, the Commission allowed the Company to include in its annual revenue requirement the amount that it was actually contributing to the pension plan, which was zero. Order No. 29505, p. 21. The Commission also notified Idaho Power that it could apply for a ratemaking adjustment when the Company began making new contributions to the pension plan.

On March 20, 2007, Idaho Power filed a request for an Accounting Order (Case No. IPC-E-07-07) that allows the Company to (1) change from accrual accounting to cash accounting to determine future contributions to the defined benefit pension plan, and (2) defer future defined benefit pension plan contributions and record them as a regulatory asset with ratemaking treatment of such asset to be determined in subsequent revenue requirement proceedings. In

Order No. 30333, the Commission approved the Company's request and reaffirmed that the "ERISA minimum funding requirement made as a cash contribution may be properly included in the Company's revenue requirement." The Commission further stated in that Order:

> 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, we find that the proper ratemaking treatment of the regulatory assets should be determined in subsequent proceedings. 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.

Idaho Power's actuaries have informed the Company that a cash contribution in the amount of $5,092,774 was due to the plan on January 1, 2009. From that date, the contribution increases at an annual effective rate of 8.15% until payment. If the payment is made on September 15, 2010, the final due date, the amount due would be $5,822,145. Upon learning of the pending contribution, Idaho Power filed a request with the Commission for authority to implement an annual tracking mechanism, similar to the Power Cost Adjustment (PCA), to recover its defined benefit pension expense (Case No. IPC-E-09-29). Staff and the Company subsequently agreed, and the Commission approved in Order No. 31003 issued on February 17, 2010, that rather than create a tracking mechanism with separate line items on customers' bills, it would be more appropriate to create a regulatory balancing account in which the deferred cash contributions would be recovered in rates through amortization. The Company's current Application is a culmination of several cases and Orders which have led to the rate recovery methodology included in the Application, which Staff and the Commission have previously supported.

The amount required to be funded on September 15, 2010 is a system-wide amount. After allocating $46,078 to subsidiaries and 6.22% to the Company's Oregon jurisdiction, the remaining Idaho jurisdictional pension expense is $5,416,796. The Company has requested, and Staff supports, a 12-month amortization period to recover this amount. Rather than using a straight-line amortization methodology which produces twelve equal monthly amortization expenses, the Company calculates a monthly amortization rate based on forecasted revenues from June 1, 2010 through May 31, 2011. The percentage of the annual revenue the Company forecasts to receive in each month is then divided by the annual forecasted revenue for the test

period. The resulting percentage is then applied to the pension expense to come up with the monthly amortization rate. Staff does not believe that shaping the amortization to coincide with revenues is necessary because pension expense is not tied to customer usage. Staff recommends that the Company use a straight-line amortization rate, which would equate to a monthly amortization expense of $451,400 if the Company funds the contribution on September 15.

While a longer amortization period would mitigate the impact of the rate increase, Staff believes the proposed 12-month amortization in this case is appropriate. A longer amortization period would allow the balance in the regulatory deferral account to carry over into future years when the Company will be required to make larger pension contributions. The estimated contribution for the 2010 plan year is $44.2 million. The Company has indicated it will seek rate recovery for future contributions in a future proceeding. Although funding levels for 2011 and beyond have not been determined, it is likely that they will be similar to the 2010 levels for several years to come. The higher funding levels are attributable to poor market returns over the past several years, and to the aging workforce of Idaho Power and the increasing benefit payments made to retired employees. The following table indicates the estimated payments that will be made to retired employees in the coming years:

Fiscal Year Ending	Expected Payment
December 31, 2009	$18,273,132
December 31, 2010	$19,447,951
December 31, 2011	$20,775,650
December 31, 2012	$22,640,911
December 31, 2013	$24,698,866
December 31, 2014 to December 31, 2018	$156,991,685

The pension plan assets not only have to provide for the future benefits of its current employees, but must also provide for the previously accrued retirement benefits of retired employees.

Also contributing to the expected increase in pension contributions is the demographics of the active employees at Idaho Power. Fifty-two percent of the active participants in the pension plan are over the age of 45 years old, while forty percent have 15 or more years of service with Idaho Power. As these employees retire from the Company, the benefit payments they receive will be paid from the plan assets. These factors, combined with recent poor market performance, will require Idaho Power to continually fund increasing amounts to its retirement plan to keep it solvent.

It is the high level of expected contributions that leads to Staff's concerns about whether Idaho Power has the appropriate retirement plan for its employees, given that customers ultimately will have to pay for it. A defined benefit pension plan, like Idaho Power's, is a plan where the benefits employees receive at retirement are determined by a defined formula based on the employee's age, salary, and years of service. The retirement benefit is not contingent on investment returns, which leaves the employer to bear all of the investment risk. Generally speaking, if the investments in the plan underperform, the amount of the required contribution will increase. When the investments on the plan assets underperform and required contributions increase, the customers bear the burden of the increased contributions through increased rates for electric service. Staff does not believe that customers alone should bear the burden of investment risk. There may also be other types of retirement plans that are more suitable for regulated utilities.

Staff is aware that Idaho Power needs to provide a total compensation package that includes retirement benefits to retain and attract valuable employees. It is not Staff's recommendation at this point to reduce those benefits, but rather to explore other options that will provide a similar level of benefits while eliminating the volatility of the annual contributions, thus eliminating the need for periodic rate adjustments. Staff is committed to working with the Company and other interested parties to examine and determine the following: (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; or (c) if another type of retirement plan is preferable.

Rate Design

The Company proposes to allocate the revenue requirement increase in this case uniformly to the various customer classes based on each class's current allocation of base revenue. Staff supports the Company's proposal. This uniform revenue spread is consistent with the base revenue class allocation approved by the Commission in Case No. IPC-E-09-30, the Accounting Order to Amortize Deferred Tax Credits and Approve Stipulation, and is consistent with the most recent cost of service approved by the Commission.

Staff also supports the Company's proposal to increase rate components within individual customer classes. The approved Stipulation in Case No. IPC-E-09-30 specified that customer charges would not increase in the residential and small commercial classes. Consequently, Staff

believes that only the energy component in these classes should increase in this case. The uniform increase in rate components for all other customer classes is also consistent with the previously approved stipulation and maintains the rate component relationships established by the Commission in Idaho Power's last general rate case.

Customer Notice and Press Release

The Press Release and Customer Notice were included in Idaho Power's Application. The Press Release was issued on March 15, 2010, while the Customer Notice was distributed to customers as a billing insert during the billing cycle ending April 21, 2010. In addition to describing the current filing, these customer communications also describe proposed rate changes associated with the recovery of Advanced Metering Infrastructure investment (Case No. IPC-E-10-06) and the annual Fixed Cost Adjustment (Case No. IPC-E-10-07).

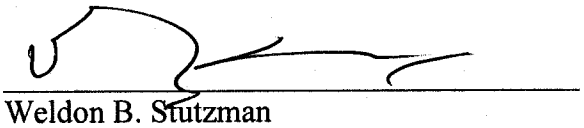
Customer Comments

As of May 11, 2010, twenty-two Idaho Power customers had submitted written comments regarding the proposed increase in rates, all of which opposed any increase in rates. While most of the submissions were opposed to proposed increases associated with Advanced Metering Infrastructure investment and the Fixed Cost Adjustment, seven customers commented solely on the pension increase. The primary concerns were that customers should not pay for increases in pension benefits, especially under the current economic conditions, or questioning why customers should have to pay for pension benefits at all. However, Staff notes that Idaho Power is not requesting an increase in its retirement benefits, but only to recover the cash contributions required to pay for the accrued benefits of its existing pension plan.

STAFF RECOMMENDATION

Staff recommends that the Commission approve the Company's Application and proposed tariffs to increase customer rates to recover contributions made to the Company's pension plan. Staff also recommends that the Company use a straight-line amortization to recover the deferred amounts in the regulatory asset account. Staff further recommends that the Commission direct Idaho Power to continue working with Staff and other interested parties to determine other retirement benefit options.

Respectfully submitted this 13th day of May 2010.



Weldon B. Stutzman
Deputy Attorney General

Technical Staff: Donn English

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS **13TH** DAY OF MAY 2010, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. IPC-E-10-08, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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