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IDAHO PUBLIC
UTILITIES COMMISSION

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 PENSION CASH CONTRIBUTION.	)	CASE NO. IPC-E-11-04

IDAHO POWER COMPANY

DIRECT TESTIMONY

OF

DARREL ANDERSON

Q. Please state your name and business address.

A. My name is Darrel Anderson and my business address is 1221 West Idaho Street, Boise, Idaho.

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

A. I am employed by Idaho Power Company ("Idaho Power" or "Company") as the Executive Vice President of Administrative Services and the Chief Financial Officer.

Q. Please describe your educational background and work experience prior to joining Idaho Power.

A. I graduated from Oregon State University with a Bachelor of Science Degree in Accounting and Finance in 1979. I am a licensed CPA in the state of Oregon (#4312 inactive). Before joining Idaho Power in 1996, I was the Chief Financial Officer of Sisters of Saint Mary of Oregon. Prior to joining the Sisters of Saint Mary of Oregon, I was a senior manager of Audit Services for Deloitte & Touche and was a firm-designated specialist in electric and gas utility operations. I left Deloitte & Touche in 1995.

Q. Please describe your work experience with Idaho Power.

A. I joined Idaho Power in 1996 as a Controller in the Finance Department. In 1998, I moved to Lacey, Washington, where I served as Executive Vice President of Finance and Operations at Applied Power Corporation, a subsidiary of IDACORP, Inc. In April 1999, I became Idaho Power Company's Vice President of Finance and Treasurer. From July 2004 to September 2009, I served as the Company's Senior Vice President of Administrative Services and Chief Financial Officer and was responsible for all financial and treasury functions. Since being appointed Idaho Power and IDACORP's Executive Vice President of Administrative Services in October 2009, I continue to oversee Finance, Treasury, and Administrative Services.

Q. What is the Company requesting in this proceeding?

A. The Company is requesting recovery of the cash contribution made to its pension plan in 2010 over a three-year amortization schedule to begin coincident with a rate change effective June 1, 2011. This request would increase amounts currently included in rates from $5.4 million to approximately $17.1 million annually, an increase of $11.7 million.

Q. Upon what basis is the Company requesting recovery of the cash contribution to its pension plan during the moratorium and outside a general rate case?

A. For a number of expense categories delineated in the Stipulation filed in Case No. IPC-E-09-30 and approved in Idaho Public Utilities Commission

("Commission") Order No. 30978, the Company is authorized to make filings with the Commission to adjust its revenue requirement and change rates prior to January 1, 2012. Annual pension cost recovery is one of those specified expense categories.

Q. What is the purpose of your testimony in this proceeding?

A. My testimony is intended to provide the Commission with an understanding of the Company's financial policy decisions and the federal pension funding requirements that drove the need for the cash contribution to the pension plan in 2010. Further my testimony will describe the current status of the balancing account used to track the cumulative cash contributions to the pension plan and amounts recovered in rates. Finally, I will present the Company's proposed amortization period for the accumulated cash contribution to the pension plan and the corresponding amount to be collected from customers through rates.

I. BACKGROUND

Q. Please describe the business objective for offering a pension plan for employees.

A. The pension plan is one component of the overall retirement benefits package available to employees.

The Company's retirement benefits package includes three components: (1) a defined contribution, or 401(k) benefit plan, (2) a defined benefit pension plan, and (3) a retiree medical benefit plan. The retirement benefits package along with other employee compensation is structured in a manner to attract and retain a highly skilled workforce that can provide safe and reliable service to customers.

Q. As part of Order No. 31091 approving the Company's 2010 request for recovery of a $5.4 million cash contribution to the pension plan, the Commission directed the Company to provide additional information regarding potential retirement benefits alternatives that might "reduce the burden placed on customers." Has the Company complied with the Commission's directive?

A. Yes. On October 1, 2010 the Company filed Case No. IPC-E-10-25 requesting acceptance of its 2011 Retirement Benefits Package. With that filing, the Company presented information demonstrating that it has been diligent in controlling the retirement benefit package costs over the years and has made timely adjustments to its retirement benefits in order to stay on the leading edge of retirement benefit package costs. In its 2011 Retirement Benefits Package, the Company reduced future pension costs associated with new hires by 20 percent. On February 18, 2011 the Company filed with the Commission a supplemental report detailing analyses that the Company believes demonstrate that the level of market risk borne by Idaho Power's customers related to pension plan funding obligations is reasonable and is likely to result in lower costs over time as compared to other alternatives.

Q. Has the Commission issued an Order accepting the Company's 2011 Retirement Benefits Package?

A. No. However, the Commission issued Order No. 32619 stating that the Company "is not precluded from filing for recovery of 2010 contributions to its pension plan before this case [IPC-E-10-25] is completed."

II. PENSION PLAN FUNDING

Q. What factors does the Company consider when determining the level of cash contributions to make toward the pension plan?

A. The first consideration for any funding decision is the amount required to be contributed by the Employee Retirement Income Security Act ("ERISA") as amended by the Pension Protection Act of 2006 ("PPA"). Beyond the minimum required amount, which is calculated by Idaho Power's actuary, Milliman, Inc. ("Milliman"), the Company considers several factors in determining the amount to fund. These factors include estimated impacts of the funding decision on plan funding ratios, future contribution payments, Pension Benefit Guaranty Corporation ("PBGC") premiums, and the Company's available liquidity.

Q. What is significant about maintaining plan funding ratios?

A. The PPA places certain benefit restrictions on plans in which the funding level falls below 80 percent. These restrictions limit lump sum payment options available to retirees and beneficiaries. Falling below the 80 percent target funding level also triggers certain reporting requirements to the PBGC, which may be considered a violation of debt covenants of Idaho Power and could adversely impact the Company's liquidity.

Q. How does falling below an 80 percent funding level impact future contributions?

A. Failing to meet the 80 percent funding level reduces flexibility in funding by the plan sponsor as the election to use pre-funding balances to offset future funding requirements becomes unavailable.

Q. How do PBGC premiums influence the Company's pension plan funding decisions?

A. For each plan year, for every $1,000 that the value of the plan's assets (as defined by the PPA) falls below the funding target, the Company is required to pay an additional $9 in variable PBGC premiums. Unlike plan contributions, higher PBGC premiums do not increase the value of plan assets available for benefits. Premiums only increase the PBGC's available pool of funds to fund benefits for plans whose sponsors are in default on their plan obligations. The variable portion of PBGC premiums incents plan sponsors to maintain a healthy funding ratio for their plans in order to avoid the higher premiums.

Q. How does the Company's available liquidity impact the decision regarding the level of funding?

A. The Company's available liquidity must be considered when determining the size of any contribution. There may be times when funding amounts beyond the minimum contribution could put undue stress on the Company's available liquidity when consideration is given to all its corporate funding needs.

Q. What was the Company's minimum 2010 funding requirement as defined by ERISA?

A. The Company's actuary determined that the minimum funding required in 2010 by ERISA was approximately $5.8 million.

Q. Did the Company choose to fund only the minimum cash contribution level required by ERISA in 2010?

A. No. If the Company had only contributed the required $5.8 million, its funding level at December 31, 2010, would have been below 80 percent. This would have triggered certain plan restrictions, notice requirements to participants, and limitations on future funding alternatives.

Q. How did the Company determine the appropriate amount to contribute toward its pension plan in 2010?

A. The Company assessed the appropriate amount to contribute in 2010 by modeling alternative funding scenarios and projecting their impacts on expected funding levels, short and medium-term funding requirements, and PBGC premiums.

Ultimately, it was determined that making a $60 million contribution would maintain an 80 percent funding level (as defined in the PPA), would reduce PBGC premium payments, and would approximate the required minimum funding through 2011.

In evaluating alternative scenarios, it was estimated that, over a ten-year period, total required contributions would be approximately $11 million less by contributing $60 million rather than the minimum required $5.8 million. Additionally, it was estimated that the larger contribution in 2010 would result in savings relating to the variable portion of PBGC premiums of nearly $1 million for the years 2010 through 2012.

Q. Do prior Commission orders prohibit the Company from contributing more than the minimum amount required by ERISA?

A. No. In fact, in Order No. 31003, the Commission clarified that "amounts contributed in excess of the ERISA minimum, while potentially subject to longer amortization, will not be disallowed solely because they are made sooner than they are legally required to be paid . . . ." Order No. 31003 at 10, 11.

Q. Was the $60 million contribution determined to be adequate to avoid additional minimum funding requirements during 2011?

A. No. While the contribution eliminated any 2010 plan-year contributions due in 2011, the amount was determined by Milliman to be less than adequate to cover the full minimum funding needs through 2011. A required contribution for the 2011 plan year of $3 million is due by October 15, 2011. Additionally, a $5.7 million required contribution for the 2011 plan year is due by January 15, 2012. Idaho Power does not request recovery of these anticipated 2011 plan contributions at this time.

III. <u>BALANCING ACCOUNT AND COST RECOVERY</u>

Q. What is the current balance of the Idaho jurisdictional balancing account used to track the cumulative cash contributions to the pension plan and amounts recovered in rates?

A. As of May 31, 2011, the Idaho jurisdictional balancing account, which represents cumulative cash contributions less cumulative amounts provided for in rates, will have a balance of $51,461,138. The determination of the projected May 31, 2011, balancing account balance is shown on Exhibit No. 1.

Q. Please describe what that balance represents.

A. This balance reflects Idaho jurisdictional share of unrecovered cash contributions expected as of May 31, 2011. In September 2010, Idaho Power contributed $60 million to its pension plan. As can be seen on Exhibit No. 1, the Idaho portion of this contribution of $56,505,566 was added to the balancing account in October 2010. This balance was reduced by the $5,416,796 of amounts expected to be recovered between June 1, 2010, and May 31, 2011. During the same period, the balancing account will have earned carrying charges of $372,368 to arrive at the ending balance.

Q. Over what period of time is the Company recommending that the cash contribution be recovered?

A. Based on the current economic environment and in light of other requested rate actions, the Company is recommending the current balancing account amounts be collected over a three-year period. Although this individual Application requests a rate increase, when combined with the Fixed Cost Adjustment request and next month's Power Cost Adjustment request, the Company believes that customers will see a net decrease in their rates on June 1, 2011.

Further, the three-year period is consistent with the three-year average period for pension related expenses recently approved by Order No. 32196 in Rocky Mountain Case No. PAC-E-10-07.

Q. Based on the three-year spread recommendation, what impact does this have on the amounts that need to be collected from customers?

A. Assuming a projected balance in the balancing account of $51,461,138, a three-year amortization would result in a request to collect $17,153,713 per year over the next three years. When offset by the amount of $5,416,796 currently being collected in rates, an increase of $11,736,917 would be required. The determination of the requested incremental pension funding to be collected from Idaho customers is summarized in Exhibit No. 2.

Q. Does the Company expect the requested annual funding level of approximately $17.1 million to be adequate to offset future cash contributions to the pension plan associated with plan obligations beyond 2010?

A. Over the next several years, the Company anticipates that it will be required to make additional cash contributions to the pension plan beyond those contemplated for recovery in this filing. However, the Company views the Commission-authorized balancing account as an effective tool to help smooth or normalize the level of pension cost recovery to be included in customers' rates. The Company intends to monitor the balancing account balance in combination with pension funding projections to determine whether or not the level funding should be adjusted in the future.

Q. Does this conclude your testimony?

A. Yes, it does.

BEFORE THE

IDAHO PUBLIC UTILITIES COMMISSION

CASE NO. IPC-E-11-04

IDAHO POWER COMPANY

ANDERSON, DI
TESTIMONY

EXHIBIT NO. 1

IDAHO POWER COMPANY
Idaho Pension Expense Account 182327 - IPUC Order Nos. 31091 & 31003
For the month of May 2011

MONTH	CONTRIBUTION	BEGINNING BALANCE	ENDING PRINCIPAL BALANCE	AVG BAL NET OF CUM INT CHARGES	IDAHO DEPOSIT RATE	CARRYING CHARGES	CUMULATIVE INTEREST CHARGES	BALANCE INCLUDING INTEREST
May, 2010		$ -	$ -	$ -	1.000%	$ -	$ -	$ -
June	$ -	$ -	$ (451,400)	$ (225,700)	1.000%	$ (186)	$ (186)	$ (451,586)
July	$ -	$ (451,400)	$ (902,800)	$ (677,100)	1.000%	$ (575)	$ (761)	$ (903,561)
Aug	$ -	$ (902,800)	$ (1,354,200)	$ (1,128,500)	1.000%	$ (958)	$ (1,719)	$ (1,355,919)
Sep	$ 56,505,566	$ (1,354,200)	$ 54,699,966	$ 26,672,883	1.000%	$ 21,923	$ 20,204	$ 54,720,170
Oct	$ -	$ 54,699,966	$ 54,248,566	$ 54,474,266	1.000%	$ 46,266	$ 66,470	$ 54,315,035
Nov	$ -	$ 54,248,566	$ 53,797,166	$ 54,022,866	1.000%	$ 44,402	$ 110,872	$ 53,908,038
Dec	$ -	$ 53,797,166	$ 53,345,766	$ 53,571,466	1.000%	$ 45,499	$ 156,371	$ 53,502,137
Jan, 2011	$ -	$ 53,345,766	$ 52,894,366	$ 53,120,066	1.000%	$ 45,116	$ 201,487	$ 53,095,852
Feb	$ -	$ 52,894,366	$ 52,442,966	$ 52,668,666	1.000%	$ 40,403	$ 241,890	$ 52,684,856
Mar	$ -	$ 52,442,966	$ 51,991,566	$ 52,217,266	1.000%	$ 44,349	$ 286,239	$ 52,277,805
Apr	$ -	$ 51,991,566	$ 51,540,166	$ 51,765,866	1.000%	$ 42,547	$ 328,786	$ 51,868,952
May	$ -	$ 51,540,166	$ 51,088,770	$ 51,314,468	1.000%	$ 43,582	$ 372,368	$ 51,461,138

BEFORE THE

IDAHO PUBLIC UTILITIES COMMISSION

CASE NO. IPC-E-11-04

IDAHO POWER COMPANY

ANDERSON, DI
TESTIMONY

EXHIBIT NO. 2

Idaho Power Company
Idaho Jurisdictional Pension Cost Recovery
Idaho Balancing Account 182327
Expected May 31, 2011, Balance

2010 contribution	$	60,000,000
2010 subsidiary allocation		(53,506)
Allocable contribution		59,946,494
2010 Idaho labor allocation		94.26%
2010 contribution - Idaho portion		56,505,566
Current Idaho recovery		(5,416,796)
Unrecovered portion		51,088,770
Carrying charges		372,368
May 31, 2011 Balance		51,461,138
Amortization period		3 years
Simple amortization		17,153,713
Less current Idaho recovery		(5,416,796)
Incremental amortization	**$**	**11,736,917**