

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

**IN THE MATTER OF THE APPLICATION            )**  
**OF IDAHO POWER COMPANY TO                )** **CASE NO. IPC-E-11-04**  
**INCREASE ITS RATES FOR ELECTRIC         )**  
**SERVICE TO RECOVER ITS 2010 PENSION    )** **ORDER NO. 32248**  
**CASH CONTRIBUTION                            )**

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On March 15, 2011, Idaho Power Company filed an Application requesting an increase in customer rates to recover a \$60 million contribution the Company made in 2010 to its Defined Benefit Pension Plan. The Company's actuary, Milliman, Inc., determined that the Company would have to make a contribution in 2010 to satisfy requirements of the Employee Retirement Income Security Act (ERISA). Milliman determined that the minimum funding required by ERISA was approximately \$5.8 million, but that if the Company contributed only the minimum amount, its funding level at December 31, 2010, would be below 80%. Funding below 80% triggers certain plan restrictions, notice requirements to participants, and limitations on future funding alternatives. The Company determined that a \$60 million contribution would maintain an 80% funding level, avoiding the plan restrictions, but acknowledged the amount is less than adequate to cover the full minimum funding needs through 2011. The Application states that a contribution for the 2011 plan year of \$3 million is due by October 15, 2011, and that an additional \$5.7 million is due by January 15, 2012. The Company does not request recovery of these anticipated 2011 contributions in this case.

Idaho Power and Milliman estimated that over a 10-year period, the total contributions required for the plan will be approximately \$11 million less by contributing \$60 million in 2010 rather than the minimum required \$5.8 million. In addition, the Company asserts that the larger contribution in 2010 will result in savings relating to the variable portion of Pension Benefit Guarantee Corporation premiums of nearly \$1 million for the years 2010-2012.

Pursuant to Commission Order No. 31091, the Company is currently collecting \$5,416,796 in rates each year to recover pension plan contributions. Idaho Power proposes to increase the amount it currently collects in rates to \$17,153,713 per year, an increase of \$11,736,917, to recover the amount the Company contributed in 2010. The Company proposal

reflects a three-year amortization of the deferral balance in the balancing account, starting June 1, 2011.

Idaho Power's Application states that an increase of \$11.7 million in customer rates equates to a 1.39% increase for all customer classes. The Company requests that the proposed increase take effect at the same time that rate adjustments relating to fixed costs and power costs take effect. The Company asserts that the combination will result in a net decrease in customer rates effective June 1, 2011.

On March 30, 2011, the Commission issued a Notice of Application and Notice of Modified Procedure, establishing a 21-day comment period and 7-day reply comment period. Written comments were filed by Commission Staff and the Industrial Customers of Idaho Power (ICIP). The Company filed reply comments on April 27, 2011. In addition, approximately 16 Idaho Power customers filed written comments.

#### **WRITTEN COMMENTS**

In its written comments, Staff stated no objection to the Company's request to increase rates to recover its 2010 employee pension plan contribution, but expressed concern about the cost of the Company's employee retirement plan and the level of benefits for Company employees that are paid by customers. Staff supported the Company's proposal to amortize the recovery over three years, recognizing that extending the amortization period could create larger increases in future years. Staff does not contest the amount of the \$60 million contribution or the Company's determination that the amount of the contribution was necessary.

Staff expressed concern that the level of contributions expected to be made in the next few years will be inadequate to maintain a reasonable balance in the pension plan balancing account. Staff considered the potential remaining balance in the account under four different scenarios of annual recovery: \$17.1 million, as proposed in this case, \$20 million, \$25 million, and \$30 million. With the expected required contributions, Staff believes that an annual recovery of \$17.1 million, as proposed by the Company, will be inadequate to eliminate the significant balance in the balancing account as of December 31, 2019.

ICIP in its written comments noted that Idaho Power has identified significant pension plan contributions through 2015. The Company's Form 10-K filed with the Securities and Exchange Commission (SEC) states that minimum required contributions to the defined pension plan are estimated to be approximately \$3 million in 2011, \$46 million in 2012, \$36

million in 2013, \$32 million in 2014, and \$31 million in 2015. ICIP Comments, p. 4. Combined with the \$60 million contributed in 2010, the Company estimates total plan contributions will be \$208 million by 2015. ICIP estimates that this will equate to a 20% rate increase “necessary solely to keep Idaho Power’s pension fund solvent for existing employees.” ICIP Comments, p. 6. ICIP recommends the Commission mitigate the rate impact in this case by increasing the amortization period to five years rather than the three years proposed by the Company. ICIP determined that the longer amortization period would lower the proposed rate increase from \$11.7 million annually for three years to \$4.9 million per year for five years, and produce a 0.61% rate increase. ICIP Comments, p. 8.

Sixteen residential customers and one commercial customer filed comments. All of the customer comments oppose the recovery of the pension contribution in customer rates. Most of the residential customers asserted that customers should not pay for rate increases to fund pension plan contributions, especially in the current economic conditions. The commercial customer that filed comments, Boise Inc., expressed concern “about ongoing increases to recover costs associated with the Company’s defined benefit pension plan.” Boise Inc. discussed its own experience with “the challenges of funding pension plans and providing competitive, sustainable employee benefits,” and recommended the Commission “direct the company to not only study, but propose *meaningful* changes to its retirement and other employee benefits in order to mitigate impacts to rate payers.” Boise Inc. suggested Idaho Power’s “shareholders should share in the burden, particularly since an organization’s employees work to benefit not only customers, but also shareholders by creating shareholder value.”

Idaho Power filed reply comments on April 27, 2011. Idaho Power contends that ICIP’s determination that a 20% rate increase will be necessary to recover the Company’s anticipated pension plan contributions “dramatically overstates the potential impact.” Idaho Power Reply Comments, p. 2. The 20% rate increase projected by ICIP would recover the entire contributions in one year, and does not account for a reasonable amortization period. Idaho Power also disagreed with ICIP’s proposal to extend the amortization to five years, stating that “extending the proposed amortization beyond the three years only exacerbates the timeframe of the pay down of the balancing account.” Idaho Power Reply Comments, p. 3.

## COMMISSION FINDINGS

We begin by noting that the Company's Application for recovering contributions to its pension plan is consistent with past Commission directives regarding those contributions. In Order No. 30333, the Commission authorized the Company to (1) change from accrual accounting to cash accounting to determine future contributions, and (2) defer future defined benefit pension plan contributions and record them as a regulatory asset. In Order No. 31003 issued February 17, 2010, the Commission authorized the Company to create a regulatory balancing account in which the deferred cash contributions to the pension plan would be amortized and recovered in rates. None of the comments filed in this case question the propriety of the Company's decision, given the ERISA requirements, to make a \$60 million contribution to its defined benefit pension plan in 2010.

On the record in this case, the Commission has determined to approve Idaho Power's request to recover its 2010 contribution to the Company's defined benefits pension plan through a 1.39% rate increase during the next three years. A longer amortization period would result in a smaller increase, but raise the potential for even higher rate increases in the future if projected contributions are made to the plan. Accordingly, the Commission finds three years to be the appropriate amortization period for capturing the 2010 contribution.

The Commission remains concerned, however, that Idaho Power's defined benefits pension plan places the burden solely on customers to pay all increased costs of the plan. We noted in Order No. 32239 that the Company annually reviews its retirement benefits package, and we directed the Company "to broaden its review to include total employee compensation and benefits, compared with employee compensation provided by other utility companies." Order No. 32239, p. 6. The Company's review should also include consideration of ways to enable shareholders and employees to participate in the costs of Idaho Power's defined benefit pension plan.

## ORDER

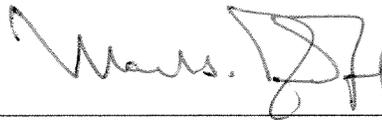
IT IS HEREBY ORDERED that the Application of Idaho Power Company to increase its rates to recover the amortization of its 2010 cash contribution to its defined benefit pension plan is approved. Idaho Power may increase its customer rates 1.39% to collect an additional \$11,736,917 per year for three years, effective June 1, 2011.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. 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 19<sup>th</sup> day of May 2011.



PAUL KJELLANDER, PRESIDENT

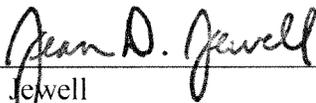


MACK A. REDFORD, COMMISSIONER



MARSHA H. SMITH, COMMISSIONER

ATTEST:



Jean D. Jewell  
Commission Secretary

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