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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 PENSION CASH CONTRIBUTION.	**CASE NO. IPC-E-11-4** **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. 32215 on March 30, 2011, submits the following comments. **This is a redacted copy of Staff Comments to protect information Idaho Power Company regards as confidential. The unredacted copy is provided to parties to the Protective Agreement.**

BACKGROUND

On March 15, 2011, Idaho Power Company filed an Application requesting an increase in customer base 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 needed 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. The Company determined, however, that if it 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. Accordingly, the Company determined that making a $60 million contribution would maintain an 80% funding level, avoiding the plan restrictions, and approximating the required minimum funding through 2011. Application, pp. 3-4.

Idaho Power and Milliman estimated that over a 10-year period, the total amount required for contribution to the plan would 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. Milliman determined that the $60 million contributed in 2010 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.

Pursuant to the Commission's Order No. 31091, the Company is currently collecting in rates $5,416,796 each year to recover pension plan contributions. To collect the $60 million the Company contributed in 2010, Idaho Power proposes a three-year amortization. Idaho Power also proposes to increase the base pension amount it currently collects in rates to $17,153,713 per year, an increase of $11,736,917 over the amount currently collected.

Idaho Power's Application states that an increase of $11.7 million in customer rates amounts to a 1.39% increase for all customer classes. However, the Company requests that the increase it proposes in this case 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.

STAFF ANALYSIS

Staff reviewed the Company's Application and the testimony and exhibits of Darrel Anderson and Kelley Noe, along with other information provided by the Company, and does not object to the Company's request to increase rates by 1.39% or $11,736,917 annually to fund its employee pension plan. Staff remains concerned about the costs of the Company's Employee

Retirement Plan and the level of benefits received by Idaho Power employees that are ultimately paid for by customers. Although Staff is hesitant to support Idaho Power's proposed amortization of three years in this case, extending the amortization period will create larger increases in future years, as discussed later in more detail.

The Company's Application complies with the directives previously issued by this Commission. In Order No. 29505, the Commission allowed the Company to include in its annual revenue requirement the amount of its actual cash contributions instead of the accrued expense calculated under Statement of Financial Accounting Standard No. 87. In Order No. 30333, the Commission authorized 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 a subsequent revenue requirement proceeding. On February 17, 2010, the Commission issued Order No. 31003 allowing the Company to create a regulatory balancing account in which the deferred cash contributions to the pension plan would be recovered in rates through amortization. The Company's Application is consistent with Commission Orders that have led to the rate recovery methodology included in the Application. Staff has supported and the Commission has adopted this methodology. The Company-proposed accounting entries are reasonable.

As part of Order No. 31901 approving the Company's 2010 request for recovery of $5.4 million in cash contributions to the pension plan, the Commission expressed concern with the increasing costs of Idaho Power's pension plan stating: "It is unreasonable for Idaho Power's customers to be solely responsible for large contributions to the Company's defined benefit pension plan." Order No. 31901 at 3. The Commission further directed the Company to "consider changes to its retirement plan and address shareholder and employee liabilities in the assignment of pension plan investment risk." The Commission also stated that it "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." The Commission currently has an open docket (IPC-E-10-25) where the Company contends that it has complied with the Commission's directive. Staff and the Industrial Customers of Idaho Power have filed comments in that case.

On September 15, 2010, the Company made a contribution of $60 million to its defined benefit pension plan. Staff does not disagree with the amount of the contribution and the reasons necessitating such a large contribution. Staff continues to remain concerned, however, with the level of contributions expected to be included in customer rates to maintain a reasonable balance in the pension plan balancing account established in Order No. 31003. In its Supplemental Report in Case No. IPC-E-10-25, the Company provided the following table illustrating the potential pension contributions required through 2019 under several different scenarios.

TABLE 1
Retirement Plan of Idaho Power Company
All Participants Including New Entrants

	2011	2012	2013	2014	2015	2016	2017	2018	2019	Average
100th Percentile	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
75th Percentile	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
50th Percentile	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
25th Percentile	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
0th Percentile	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

In this table, the "100th Percentile" (worst case) results correspond to a scenario where interest rates remain at current low levels and, simultaneously, Idaho Power experiences its lowest expected average of annual returns over the next nine years. In that event, the average annual funding contributions associated with all participants in the Company's retirement plans would be [redacted] million per year. The "0th Percentile" (best case) results correspond to a scenario where interest rates move upward and, simultaneously, Idaho Power experiences its highest expected average of annual returns over the next nine years. In that event, the average annual funding contributions would be [redacted] million. The "50th Percentile" (expected case) would anticipate the average annual funding obligations of [redacted] million per year over the next nine years.

Staff used the information provided by the Company in Table 1 to analyze the impact of annual recovery of pension contributions from ratepayers on the regulatory asset balancing account. The table below illustrates the remaining balance in the balancing account under four different scenarios of annual recovery: $17.1 million (Company's proposal in this case), $20 million, $25 million and $30 million. The annual recovery in this table is expected to begin June 1, 2011 and continue until December 31, 2019 or until the balance in the regulatory balancing account reaches zero. In places where a date is listed instead of a dollar amount, the date represents the approximate month when the balancing account will reach zero.

TABLE 2
Approximate Balance of Regulatory Asset Balancing Account
On December 31, 2019

Annual Recovery Beginning June 1, 2011	$17.1 million	$20 million	$25 million	$30 million
100th Percentile	[redacted]	[redacted]	[redacted]	[redacted]
75th Percentile	[redacted]	[redacted]	[redacted]	[redacted]
50th Percentile	[redacted]	[redacted]	[redacted]	[redacted]
25th Percentile	[redacted]	[redacted]	[redacted]	[redacted]
0th Percentile	[redacted]	[redacted]	[redacted]	[redacted]

Under the expected case, with the annual recovery of $17.1 million requested by the Company continued through December 31, 2019, the remaining balance of the regulatory asset balancing account would be approximately [redacted] million. It would require annual recovery from customers of [redacted] million in order to pay off the balance in the account by December 2018. Under the worst case scenario, the remaining balance would be approximately [redacted] million. Under every scenario, the amount requested by the Company to be recovered from customers will not be sufficient to pay down the balance in the regulatory asset balancing account until at least [redacted]. Under the current regulatory framework approved by the Commission for Idaho Power's pension plan, it will be necessary for even greater increases in future years to cover the costs of the pension plan. Under the worst case scenario, Staff calculates that it would require an annual recovery from customers of [redacted] million beginning June 1, 2011 in order to reach a zero balance in the balancing account before the end of this decade.

Table 3 below illustrates the percentage of employee compensation that corresponds to the annual recovery amounts listed in Table 2. This table uses the actual employee compensation for 2010, and the projected employee compensation and employee count for years 2011-2019. The Company projects annual wage increases of 4.5% and employee growth of 3% each year through 2019. Staff notes that the following percentages apply only to the Idaho Power Company defined benefit pension plan, and do not include the 4% matching contributions available to Idaho Power employees under the Company's separate 401(k) plan.

TABLE 3
Pension Recovery Percentage of Employee Compensation

Annual Recovery	$17.1 million	$20 million	$25 million	$30 million
% of 2010 Compensation	[redacted]	[redacted]	[redacted]	[redacted]
% of 2011 Compensation	[redacted]	[redacted]	[redacted]	[redacted]
Avg % of Comp 2010-2019	[redacted]	[redacted]	[redacted]	[redacted]

Without significant changes, annual pension fund contributions paid by customers will represent double digit percentages of total employee compensation. When combined with the 401(k) matching contribution, Idaho Power's retirement benefits package will require customers to pay in rates an amount greater than [redacted] of total employee compensation.

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, 2011, simultaneous with the filing of its Application. Customers Notices were distributed to customers as a billing insert during the billing cycle ending April 21, 2011. In addition to describing the current filing, these customer communications also describe the proposed rate increase associated with the Company's Fixed Cost Adjustment.

Customer Comments

As of April 19, 2011, thirteen Idaho Power customers had submitted written comments regarding the proposed increase in rates, all of which oppose the requested increase. The comments primarily assert that customers should not pay for increases in pension benefits, especially under the current economic conditions, or question why customers should have to pay for pension benefits at all. Some customers questioned the availability of pension benefits to Idaho Power employees, instead of a 401(k) plan. It should be noted, however, that Idaho Power is not increasing its benefits with this current Application. This Application is to recover the cash contribution required to pay for the accrued benefits of its existing plan. Idaho Power has actually reduced its benefits for new employees hired after December 31, 2010. Staff does not believe that decrease will result in any substantial savings for at least another 20 years.

STAFF RECOMMENDATIONS

Staff continues to be concerned with increasing pension plan costs that are paid only by Idaho Power's customers. Without significant changes to the Company's retirement benefits package, or the regulatory framework that assures full recovery of contributions to the pension plan, Idaho Power's proposed increased rates will remain insufficient to cover anticipated costs of the Company's pension plan.

Staff recommends that the Commission approve the Company's Application and proposed tariffs to increase customer rates to recover the $60 million contribution to the pension plan in September of 2010. If approved, this will result in an annual increase of $11,736,917, or 1.39%, to be effective June 1, 2011. The proposed accounting entries are reasonable and should be accepted.

Respectfully submitted this 20th day of April 2011.

Weldon B. Stutzman
Deputy Attorney General

Technical Staff: Donn English

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 20TH DAY OF APRIL 2011, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. IPC-E-11-04, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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