

## DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER  
COMMISSIONER SMITH  
COMMISSIONER REDFORD  
COMMISSION SECRETARY  
COMMISSION STAFF  
LEGAL**

**FROM: CECELIA A. GASSNER**

**DATE: FEBRUARY 20, 2007**

**SUBJECT: IDAHO POWER COMPANY'S APPLICATION FOR AN ACCOUNTING  
ORDER TO COMPLY WITH SFAS 158 REGARDING TREATMENT OF  
PENSION AND POSTRETIREMENT BENEFIT OBLIGATIONS, CASE  
NO. IPC-E-06-33**

On December 18, 2006, Idaho Power Company ("Idaho Power" or "Company") filed an Application for an order authorizing the Company to record certain pension and postretirement costs in accordance with certain recent changes implemented by the Financial Accounting Standards Board (FASB). This Commission has the jurisdiction over such request pursuant to *Idaho Code* § 61-524.

On January 18, 2007, the Commission issued a Notice of Application and Modified Procedure, and solicited comments from interested parties. Order No. 30223. The only comments received were submitted by Staff.

### THE APPLICATION

Idaho Power seeks an order authorizing the Company to: (1) record, as a regulatory asset or regulatory liability, the cumulative financial impact resulting from the Company's implementation of Statement of Financial Accounting Standards (SFAS) 158, and (2) record on an ongoing basis, as a regulatory asset or a regulatory liability, an amount equal to the changes in the SFAS 158 related balances. The Company states that this will not materially affect the current level of pension and postretirement costs or cost of capital calculations included in the Company's revenue requirement.

The Company currently accounts for pension and postretirement benefits in accordance with SFAS Nos. 87, 88, 106, and 132(R). SFAS 158 requires companies with at

least one employer defined benefit plan to (1) recognize that funded status of a benefit plan in its statement of financial position, and (2) recognize as a component of other comprehensive income, net of tax, the actuarial gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost pursuant to SFAS No. 87. SFAS 158 thus requires companies to recognize and account for pension and other postretirement benefit plans differently than they have. These changes affect pension assets and liabilities and other comprehensive income, but do not affect the company's income statement. "Other comprehensive income" is a component of equity that is used in general rate case to determine Idaho Power's revenue requirement. Idaho Power states that unless the Application is approved, the changes demanded by SFAS 158 will affect the calculation of its revenue requirement in future rate cases.

The Company states that it is ready to comply with SFAS 158. It further states that this standard will affect capitalization ratios used by regulatory bodies, credit rating agencies, and covenants of debt financings. Thus, the Company seeks approval by this Commission to record the effect of the adoption of the standard, allowing other comprehensive income to be deferred as a regulatory asset or liability. The Company does not intend by this Application to request any approval regarding future ratemaking treatment or to change the current cost recovery of SFAS 87 or SFAS 106 expenses.

#### **STAFF COMMENTS**

Staff noted that SFAS No. 158 was put in place in an effort to improve upon the way publicly traded corporations report their pension assets and liabilities. Staff further noted that the actual effect that Statement 158 will have on the financial statements of Idaho Power has yet to be determined since the 2006 actuarial reports have not been completed. Using the 2005 actuarial reports as a surrogate, the cumulative effect of FAS 158 would have created a regulatory asset of approximately \$70 million, though this amount will undoubtedly change as economic factors during 2006 have yet to be accounted for.

Included in the approximately \$70 million surrogate amount the Company is requesting authority to defer is \$10,928,252 of Prepaid Pension Expense. In Order No. 29505, the Commission removed Prepaid Pension Expense from rate base stating: "Because prepaid pension assets result from accounting procedures rather than funds actually contributed, they are not the type of asset providing electric service upon which Idaho Power and its shareholders are

entitled to earn a return on investment.” Staff continues to believe that prepaid pension expense is not an asset used in the generation, transmission or distribution of electricity and is only created by economic factors, many of which are beyond the Company’s control, and accounting procedures and therefore is not an asset that should be used in calculating the Company’s revenue requirement.

Staff believes that it is reasonable to allow Idaho Power to create a regulatory asset in FERC Account 182.3 to account for the cumulative effect of SFAS 158 in its entirety. Staff recommended that the Company use a separate sub-account specifically for SFAS entries, which would facilitate Staff’s ability to track the account activity. It should also be noted that any bookkeeping entries approved by the Commission in this case do not constitute any concurrence by Staff on how the impact of SFAS 158 will affect ratemaking. Rather than debating the different components of SFAS 158 in this current case, Staff believes that the ratemaking treatment of the impact of the statement should be addressed in the Company’s next general rate case filing. At that time, Staff will be able to review current actuarial calculations as opposed to surrogate, outdated data and will have a better understanding of the affect of the statement. Idaho Power did not request a carrying charge on the resulting regulatory asset. Because the regulatory asset is created by a change in accounting procedures, Staff believes it is appropriate for the asset not to be included in rate base or accrue a carrying charge.

Staff also addressed Idaho Power’s request for approval of ongoing entries required by SFAS 158 to record the Company’s pension and postretirement benefits expense. Staff believes that after the Company’s next general rate case filing, the Staff and the Commission will have additional information that would better allow them to determine the appropriateness of the ongoing recordkeeping entries for the statement, and the overall effect that this statement should have on determining the Company’s annual revenue requirement.

*Staff Recommendation*

Staff recommended that the Commission approve Idaho Power’s Application insofar as allowing the Company to create a regulatory asset for cumulative impact of SFAS No. 158. Staff also believes that future entries to comply with SFAS 158 and their ratemaking effect should be a subject of the Company’s next general rate filing, therefore Staff recommended that the Commission deny the Company’s premature request to approve those entries at this time. Staff further recommended that Idaho Power not be permitted to earn a return on the regulatory

asset created by the implementation of SFAS 158. Finally, Staff recommended that, if the Commission approves the Application, that the Commission also find that approval of the Company's Application provides the opportunity for, but does not constitute automatic approval of, the inclusion of those regulatory assets in the calculation of the Company's revenue requirement.

#### COMMISSION DECISION

Does the Commission desire to approve the Application? Does the Commission desire to make any other determination with regards to the Application?

  
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Cecelia A. Gassner

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