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LISA D. NORDSTROM
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October 1, 2010

VIA HAND DELIVERY

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
P.O. Box 83720
Boise, Idaho 83720-0074

Re: Case No. IPC-E-10-25
IN THE MATTER OF IDAHO POWER COMPANY'S REQUEST FOR ACCEPTANCE OF ITS 2011 RETIREMENT BENEFITS PACKAGE

Dear Ms. Jewell:

Enclosed for filing please find an original and seven (7) copies of Idaho Power Company's Application in the above matter.

In addition, enclosed are nine (9) copies each of Gregory W. Said's, Darrel Anderson's , and Sharon Gerschultz's testimonies filed in support of the Application. One copy each of Mr. Said's, Mr. Anderson's, and Ms. Gerschultz's testimonies have been designated as the "Reporter's Copy." In addition, a disk containing a Word version of the aforementioned testimonies is enclosed for the Reporter.

Very truly yours,

Lisa D. Nordstrom

Lisa D. Nordstrom

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Enclosures

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER COMPANY'S REQUEST FOR ACCEPTANCE OF ITS 2011 RETIREMENT BENEFITS PACKAGE.	)	CASE NO. IPC-E-10-25 APPLICATION

COMES NOW, Idaho Power Company ("Idaho Power" or "Company"), and in accordance with Idaho Public Utilities Commission ("IPUC" or "Commission") Order No. 31091, hereby requests that the Commission issue its order accepting the Company's 2011 Retirement Benefits Package on or before February 28, 2011. However, the Company does not request recovery of additional pension plan contributions from customers at this time. In support of this request, Idaho Power states as follows:

I. BACKGROUND

1. Earlier this year, the Company requested recovery of its anticipated 2010 cash contribution to its defined benefits plan. The Commission in Order No. 31091

allowed a rate change for recovery of $5.4 million per year. The Commission Order also stated:

> Idaho Power is advised that, previous orders not withstanding, approval of the Company's pension contributions in this case does not guarantee Commission approval of future pension plan contributions. Authority for the balancing account and regulatory account remain in place. However, further justification is required before additional rate recovery for future contributions will be authorized. During the next three years, Idaho Power anticipates additional payments to its employee pension plan of approximately $68 million. Staff Comments, p. 4. During 2014-2018, the payments may total nearly $157 million. *Id.* It is unreasonable for Idaho Power's customers to be solely responsible for large contributions to the Company's defined benefit pension plan. Many employers in recent years have replaced their defined benefit plans with pension programs that place greater responsibility and investment risks on employees. Idaho Power must similarly consider changes to its retirement plan and address shareholder and employee liabilities in the assignment of pension plan investment risk. The Commission 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.

Order No. 31091 at 3.

2. Since Order No. 31091 was issued in May 2010, the Company has reviewed not only its pension plan but the totality of its 2011 retirement benefits package, including costs, benefits, and risks associated with the package. This filing is intended to provide the Commission with evidence that the Company has evaluated the costs of its retirement benefits package, has considered and implemented changes, and has a prudent retirement benefits package with a reasonable cost burden for Idaho Power customers. *The Company does not request recovery of additional pension plan contributions from customers at this time.*

II. RETIREMENT BENEFITS PLAN OVERVIEW

3. Idaho Power offers a competitive retirement benefits package that includes three benefit components: (1) a defined contribution or 401(K) benefit plan, (2) a defined benefit (pension) plan, and (3) a retiree medical benefit plan. The current retirement benefits package represents approximately 9.1 percent of a new salaried employee's base pay. Of that amount, approximately 33 percent is associated with the 401(k) benefit plan, approximately 65 percent is associated with the defined benefit plan, and approximately two percent is associated with the retiree medical benefit plan.

4. The Company places additional weight on the defined benefit plan because it rewards and incents longevity, which in turn facilitates the development and retention of knowledge and expertise. As a result, the Company maintains a skilled workforce with less time and expense incurred for training and developing new employees. The Company expects a significant loss of skilled works over the next decade; 56 percent of all current employees will be eligible for retirement by 2020. Further, 74 percent of current leaders will be eligible for retirement by 2020 and 67 percent of employees that currently hold positions classified as critical operations roles will be eligible for retirement by 2020. A similar workforce pattern exists for the utility industry as a whole. For this reason, it is imperative that the Company have the ability to attract and retain skilled workers that will be able to fill these critical roles in the coming years.

5. The Company's three component approach to an overall retirement benefits package was specifically developed to balance market risk between the Company and its retirees. The 401(K) benefit plan and retiree medical benefits

components of the retirement benefits package place all market and inflationary risk on retirees. The retiree medical component ensures that retirees have access to a health care plan, but has eliminated the Company's exposure to increases in health care plan costs which have significantly outpaced the overall Consumer Price Index ("CPI"). Health care costs are projected to continue this trend of increasing at a faster pace than the overall CPI growth rate. The Company encourages employee participation in the 401(K) benefit portion of the retirement benefits package through matching contributions as an incentive to save for such future cost increases. The only portion of the Company's retirement benefits package that has market risk implications for the Company is the defined benefit portion of the package. However, the Company has removed its inflationary risk associated with the defined benefit component by not having a cost of living adjustment feature. This portion on the overall package operates as a simple annuity with inflationary risk borne by retirees.

6. The Company considers its current retirement-related benefits to be a competitive package that supports employees' financial needs in retirement while appropriately sharing the market risk between the Company and its employees. Maintaining a competitive retirement benefits package allows the Company to recruit and retain its highly skilled workforce. Further, the competitiveness of Idaho Power's retirement benefits package supports the Company's intent to maintain a flexible workforce that can easily adjust work duties and assignments to meet the changing demands and operational needs, which in turn keep Idaho Power's costs of service lower.

III. RETIREMENT BENEFITS PLAN CHANGES FOR 2011

7. On September 16, 2010, the Company's Board of Directors voted to reduce the cost of the retirement benefits package for new employees hired after January 1, 2011, by 13 percent from the previous approximately 9.1 percent of a new salaried employee's base pay to approximately 7.9 percent of a new salaried employee's base pay. Because of reductions to the cost of the defined benefit plan, approximately 38 percent of new costs will be associated with the defined contribution 401(K) benefit plan, approximately 59 percent will associated with the defined benefit plan, and the remaining 3 percent will associated with the retiree medical benefit plan. Adjusting the prospective retirement benefits package cost to 7.9 percent of salaried employees' base pay moves Idaho Power's overall retirement benefits cost to approximately 80 percent of the representative employment market cost as a percentage of total salaried employee pay of 9.9 percent. In other words, Idaho Power's overall retirement benefits will be 80 percent (7.9/9.9 = 80%) of comparable costs for comparable companies going forward.

8. Consultant Towers Watson (formerly Towers Perrin) has completed its benchmark analysis which compares the retirement benefits of 700 companies, including 92 energy industry companies. The analysis compares Idaho Power's retirement benefits available to new salaried employees to the retirement benefits available to new salaried employees of the sampled companies. The metric used in this evaluation is a value based on retirement benefits as a percentage of base pay. Idaho Power ranks slightly below its energy industry peers and slightly above the all industry company category. Further, the Towers Watson analysis provides a detailed summary

of the costs of retirement benefit packages offered by a more narrow set of peer group companies consisting of twelve similar-sized and geographically proximate electric utilities. The results of that analysis are shown on page 3 of Exhibit No. 1 of Ms. Sharon Gerschultz's testimony that accompanies this Application.

9. The Company will begin to experience cost savings resulting from the changes to the retirement benefits package beginning in 2011. However, because the changes to the retirement benefits package apply to only new employees, the cost savings associated with the modified retirement benefits package will grow over time as a larger proportion of the Company's workforce becomes subject to the new benefits calculation. Once the workforce is fully transitioned, these changes will potentially result in approximately $1.97 million annually of future cost savings.

10. With the modifications to the defined benefit plan component, Idaho Power's retirement benefit package is more aligned with trends in the utility industry. Under its revised plan, Idaho Power's retirement benefits package costs would rank well below its energy industry peers and slightly below the all industry company category. The new plan design results in Idaho Power ranking 11th in its 12-company peer group, with ten companies above and two below, as shown on pages 4-5 of Exhibit No. 1 to Ms. Gerschultz's testimony.

IV. ALTERNATIVES TO THE DEFINED BENEFIT PLAN

11. As part of its retirement benefits package review, Idaho Power considered increasing its 401(K) benefit plan and reducing its defined benefit plan. Because the Company is already below the representative market, alternatives that shifted weighting between plans but did not reduce current retirement benefits would not decrease costs

in the long term. While the present values of both plans were very similar, the costs and contributions for the 401(K) benefit plan would be higher in the near term as compared to the defined benefit plan. The 401(K) benefit plan provided more benefit to a less experienced employee, tending to attract a less experienced workforce than a defined benefit plan. While a shift in benefits from the defined benefit plan to the 401(K) benefit plan may be appropriate in the future, Idaho Power does not believe such a shift is appropriate for the Company given its present workforce demographics.

12. Idaho Power also considered implementation of a cash balance plan but identified a number of issues that made it an unattractive option. A cash balance plan would increase plan contributions in the near term due to greater costs associated with younger and less-tenured employees. A cash balance plan is also likely to reduce employee retention due to increased portability, a significant risk given the current age demographics of the Company's workforce. Further, moving to a cash balance plan for new employees would also create a significant difference in retirement benefits between new and existing employees, and would create additional accounting and plan administrative costs. Consequently, Idaho Power does not believe it is appropriate to adopt a cash balance plan at this time.

V. <u>MODIFIED PROCEDURE</u>

13. Idaho Power has no objection to this Application being processed under Modified Procedure, i.e., by written submissions rather than by hearing. RP 201, *et seq.* If, however, the Commission determines that a technical hearing is required, the Company stands ready to present testimony and support the Application in such hearing.

14. In support of this Application, Idaho Power has submitted the pre-filed direct testimony of three witnesses. Mr. Gregory W. Said, Idaho Power's General Manager of Regulatory Affairs, describes the purpose of the filing, distinguishing between the Company's requested acceptance of the retirement benefits package and a future pension funding request. Mr. Darrel Anderson, Idaho Power's Executive Vice President of Administrative Services and Chief Financial Officer, describes the components of the Company's retirement benefits package and testifies to the process Idaho Power uses to review and modify its retirement benefit costs and risks over time. Ms. Sharon Gerschultz, Idaho Power's Director of Compensation and Benefits, outlines the analyses conducted as part of the annual retirement benefits review process and the changes to the Company's retirement benefits package that were approved by Idaho Power's Board of Directors on September 16, 2010.

15. The Company respectfully requests that the Commission issue its order accepting Idaho Power's 2011 Retirement Benefits Package on or before February 28, 2011, to allow sufficient time to prepare and process a pension funding docket prior to June 1, 2011.

VI. COMMUNICATIONS AND SERVICE OF PLEADINGS

16. Communications and service of pleadings with reference to this Application should be sent to the following:

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VII. REQUEST FOR ACCEPTANCE

17. Idaho Power respectfully requests that the Commission issue its Order accepting the Company's 2011 Retirement Benefits Package on or before February 28, 2011. With acceptance of the plan, the Company would anticipate that recovery of plan costs will reasonably follow in accordance with previous Commission orders.

DATED at Boise, Idaho, this 1st day of October 2010.

Lisa D. Nordstrom

LISA D. NORDSTROM
Attorney for Idaho Power Company