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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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

IDAHO POWER COMPANY
DIRECT TESTIMONY
OF
DARREL ANDERSON

1 Q. Please state your name and business address.

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

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

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

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

11 A. I graduated from Oregon State University with
12 a Bachelor of Science Degree in Accounting and Finance in
13 1979. I am a licensed CPA in the state of Oregon (#4312
14 inactive). Before joining Idaho Power in 1996, I was the
15 Chief Financial Officer of Sisters of Saint Mary of Oregon.
16 Prior to joining the Sisters of Saint Mary of Oregon, I was
17 a senior manager of Audit Services for Deloitte & Touche and
18 was a firm-designated specialist in electric and gas utility
19 operations. I left Deloitte & Touche in 1995.

20 Q. Please describe your work experience with
21 Idaho Power.

22 A. I joined Idaho Power in 1996 as a Controller
23 in the Finance Department. In 1998, I moved to Lacey,
24 Washington, where I served as Executive Vice President of

1 Finance and Operations at Applied Power Corporation, a
2 subsidiary of IDACORP, Inc. In April 1999, I became Idaho
3 Power Company's Vice President of Finance and Treasurer.
4 From July 2004 to September 2009, I served as the Company's
5 Senior Vice President of Administrative Services and Chief
6 Financial Officer and was responsible for all financial and
7 treasury functions. Since being appointed Idaho Power and
8 IDACORP's Executive Vice President of Administrative
9 Services in October 2009, I continue to oversee Finance,
10 Treasury, and Administrative Services.

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

13 A. My testimony is intended to provide the
14 Idaho Public Utilities Commission ("Commission") with an
15 understanding of the process the Company utilizes to review
16 and modify its retirement benefit costs and risks over
17 time.

18 Q. Please describe the frequency of Company
19 review and adjustment to its retirement benefits package.

20 A. Annually, I request that the Human Resources
21 Department, which falls under my leadership, prepare a
22 review of the Company's retirement benefits package. The
23 review is prepared under the supervision of Sharon
24 Gerschultz, the Company's Director of Compensation and

1 Benefits. Ms. Gerschultz completed the Company's most
2 recent review of its retirement benefits package and made
3 recommendations for change of the package to the Office of
4 the CEO on July 26, 2010. The Office of the CEO, of which
5 I am a member, carried the recommendation forward to the
6 Board of Directors' Compensation Committee and Board
7 approval was received on September 16, 2010.

8 Q. What is the scope of the remainder of your
9 testimony?

10 A. In the remainder of my testimony, I will:
11 (1) discuss the purpose for a retirement benefits package
12 as part of overall employee compensation, (2) provide an
13 overview of the components of Idaho Power's retirement
14 benefits package, (3) detail my instructions to Ms.
15 Gerschultz, (4) provide an overview of Ms. Gerschultz's
16 recommendations which have received Board-approval, and (5)
17 discuss how I believe the Company has been diligent with
18 regard to keeping overall retirement benefits package costs
19 at reasonable levels over time.

20 Ms. Gerschultz will then testify as to the specifics
21 of her recommendations to the Office of the CEO that were
22 ultimately approved by the Company's Board of Directors.
23 Given the data and Company testimony filed in support of

1 its Application, the Company requests Commission acceptance
2 of the Company's retirement benefits package.

3 Q. Please describe the Company's view of the
4 purpose for a retirement benefits package.

5 A. The Company believes that a retirement
6 benefits package is a significant part of the overall
7 employee compensation package desired by employees that
8 have a long-term view of their employment future.
9 Consistent with the high value the electric industry places
10 on long-term planning and reliability, Idaho Power likewise
11 values employees with a long-term perspective as part of
12 its highly skilled workforce. As Ms. Gerschultz points out
13 in her testimony, the Company expects a significant loss of
14 skilled workers over the next decade. Many of these
15 employees are in leadership positions or are in positions
16 critical to operations. In structuring a retirement
17 benefits package, the Company strives to have a competitive
18 package that supports employees' financial needs in
19 retirement while appropriately sharing market risk on the
20 value of retirement benefits between the Company and its
21 retirees.

22 Q. Please discuss the components of the
23 Company's retirement benefits package.

1 A. The Company's retirement benefits package
2 includes three components: (1) a defined contribution or
3 401(K) benefit plan, (2) a defined benefit (pension) plan,
4 and (3) a retiree medical benefit plan.

5 Q. What instructions did you give Ms.
6 Gerschultz prior to her review of the Company's retirement
7 benefits package this year?

8 A. My instructions to Ms. Gerschultz this year
9 were similar to the instructions that I provide for each
10 year's review. I asked Ms. Gerschultz to provide the
11 Office of the CEO with comparisons of the Company's overall
12 retirement benefits package costs to a representative
13 sample of comparable employers' retirement benefits package
14 costs as a representative market. I asked her to make
15 recommendations for changes to the Company's retirement
16 benefits package based upon the Company's desire to remain
17 competitive to the representative employment market, but
18 with an eye toward perpetuating a package which encourages
19 employee retention. I encouraged her to recognize that
20 retirement benefit portability is not in alignment with the
21 Company's employee retention goals and may not be in the
22 best interests of customers.

23 Q. Please describe the overall retirement
24 benefits package costs as a percentage of salaried

1 employees' base pay prior to Ms. Gerschultz's recommended
2 changes.

3 A. The cost of the retirement benefits package
4 prior to this year's review was approximately 9.1 percent
5 of a new salaried employee's base pay. Of that amount,
6 approximately 33 percent was associated with the 401(K)
7 benefit plan, approximately 65 percent was associated with
8 the defined benefit plan, and the remaining 2 percent was
9 associated with the retiree medical benefit plan. The
10 overall retirement benefits package cost of 9.1 percent of
11 a new salaried employee's base pay compares to the
12 representative employment market overall retirement
13 benefits package cost of 9.9 percent of a new salaried
14 employee's base pay. In other words, the cost of Idaho
15 Power's retirement benefits package was approximately 92
16 percent ($9.1/9.9 = 92$ percent) of the representative
17 employment market cost as a percentage of total new
18 salaried employee base pay.

19 Q. Why does the defined benefit plan represent
20 the largest share of the retirement benefits package costs
21 at 65 percent?

22 A. The Company has placed additional weight on
23 the defined benefit plan because it rewards and incents
24 longevity, which in turn facilitates the development and

1 retention of knowledge and expertise. As a result, the
2 Company maintains a skilled workforce with less time and
3 expense incurred for training and developing new employees.

4 Q. Please describe the Company's current
5 defined benefit pension plan payout formula.

6 A. Under the Company's current defined benefit
7 plan, a retiree's earned pension benefit is based upon
8 three main determinants: (1) the number of years of
9 service, (2) "Final Average Earnings," and (3) age at
10 retirement. Final Average Earnings is the average total
11 earnings during the highest 60 consecutive months in the
12 final 120 months of service with the Company. The pension
13 payout formula applies a factor of 1.5 percent to the
14 number of years of service to derive a benefit percentage.
15 The benefit percentage is then multiplied by the Final
16 Average Earnings to determine the final annual pension
17 payout. Employees who retire prior to age 62 receive a
18 reduced benefit based on their age at retirement. For
19 example, an employee who retires at age 55 would be
20 eligible for 67 percent of the calculated final annual
21 pension benefit payout.

22 Q. Please summarize Ms. Gerschultz's
23 recommended changes to the overall retirement benefits

1 package that will occur as a result of the Board of
2 Directors' approval.

3 A. In September of 2010, the Company's Board of
4 Directors approved a change to the defined benefit formula
5 for new employees that will reduce the current benefit
6 percentage factor of 1.5 percent per year of service to 1.2
7 percent per year.

8 Q. Please describe the overall retirement
9 benefits package costs as a percentage of salaried
10 employees' base pay that will exist as a result of Board
11 approval of Ms. Gerschultz's recommended changes.

12 A. The cost of the retirement benefits package
13 for new employees hired after January 1, 2011, will be
14 reduced from the previous approximately 9.1 percent of a
15 new salaried employee's base pay to approximately 7.9
16 percent of a new salaried employee's base pay. Because of
17 reductions to the cost of the defined benefit plan,
18 approximately 38 percent of new costs will be associated
19 with the defined contribution 401(K) benefit plan,
20 approximately 59 percent will be associated with the
21 defined benefit plan, and the remaining 3 percent will be
22 associated with the retiree medical benefit plan.
23 Adjusting the prospective retirement benefits package cost
24 to 7.9 percent of salaried employees' base pay moves Idaho

1 Power's overall retirement benefits cost to approximately
2 80 percent of the representative employment market cost as
3 a percentage of total salaried employee pay of 9.9 percent.
4 In other words, Idaho Power's overall retirement benefits
5 will be 80 percent ($7.9/9.9 = 80$ percent) of comparable
6 costs for comparable companies going forward.

7 Q. If Idaho Power was already paying below the
8 representative market cost of retirement benefits, why did
9 the Board approve a reduction in package costs at this
10 time?

11 A. Although Idaho Power has maintained lower
12 cost of retirement benefits than the representative market,
13 the Company believes that companies included in the
14 representative market will reduce costs associated with
15 retirement benefits on an ongoing basis. The Company does
16 not desire to be behind the curve in addressing the need to
17 manage its retirement benefits costs and wants all of its
18 retirement benefits costs to be recognized as prudently
19 incurred by regulatory commissions.

20 Q. Based upon your instructions to Ms.
21 Gerschultz to propose an ongoing retirement benefits
22 package that encourages retention of employees, how does a
23 reduction in the cost and corresponding benefit associated

1 with the Company's defined benefit portion of the overall
2 retirement benefits package accomplish that goal?

3 A. It is important to recognize that the
4 defined benefit expectation for existing employees remains
5 the same. Ms. Gerschultz's recommendations affect only the
6 defined benefit expectations for new employees. The
7 Company believes that the change in this portion of the
8 overall package will remain competitive while preserving
9 the right balance among the three retirement benefit
10 components in a manner that continues to promote the
11 retention of future employees.

12 Q. Please describe how the Company limits its
13 overall retirement benefits cost risk.

14 A. The Company's three component approach to an
15 overall retirement benefits package was specifically
16 developed with an eye toward balancing market risk between
17 the Company and its retirees. The 401(K) benefit plan
18 component of the retirement benefits package places all
19 market and inflationary risk on retirees. The same is true
20 for the retiree medical benefits portion of the retirement
21 benefits package. The retiree medical component ensures
22 that retirees have access to a health care plan, but has
23 eliminated the Company's exposure to increases in health
24 care plan costs which have significantly outpaced the

1 overall Consumer Price Index ("CPI"). Health care costs
2 are projected to continue this trend of increasing at a
3 faster pace than the overall CPI growth rate. The Company
4 encourages employee participation in the 401(K) benefit
5 portion of the retirement benefits package through matching
6 contributions as an incentive to save for such future cost
7 increases. The only portion of the Company's retirement
8 benefits package that does have market risk implications
9 for the Company is the defined benefit portion of the
10 package. However, the Company has removed its inflationary
11 risk associated with the defined benefit component by not
12 having a cost of living adjustment feature. This portion
13 on the overall package operates as a simple annuity with
14 inflationary risk borne by retirees.

15 Q. Has Idaho Power always had a retirement
16 benefits package comprised of these three components?

17 A. No. The Company's retirement benefits
18 package has evolved over the years. Prior to 1984, the
19 Company had just two components to its retirement benefits
20 package: (1) a defined benefit plan and (2) a retiree
21 medical benefit plan. In 1984, the Company adjusted the
22 overall retirement benefits package to include the third
23 component of a 401(K) benefit plan. With the addition of
24 this component in 1984 and adjustment to the other

1 components, the Company has shifted portions of the overall
2 package cost and benefit risks to retirees in order to
3 maintain a competitive risk sharing balance between the
4 Company and retirees. Simultaneously with the inclusion of
5 a 401(K) component of the retirement benefits package, the
6 Company eliminated cost of living increases as part of its
7 defined benefit component, thus shifting inflationary
8 market risk to retirees. In 1999, the Company further
9 reduced its inflationary market risk by: (1) capping the
10 Company contribution expenditures toward retiree medical
11 plan costs for employees hired prior to 1999 and (2)
12 eliminating Company contributions toward retiree medical
13 plan costs for employees hired after 1999. This industry
14 leading change put significant new risk on future retirees
15 and removed the risk from the Company.

16 With the current change to the Company's overall
17 retirement benefits package, the Company is once again on
18 the leading edge of retirement benefits package cost
19 management.

20 Q. Based upon your review as a member of the
21 Office of the CEO of Idaho Power, do you believe that the
22 Company's retirement benefits package cost is competitive
23 when compared to a comparable market of employers?

1 A. Yes. I believe that the Company's
2 retirement benefits package is competitive from a total
3 cost perspective.

4 Q. Do you believe that costs that have been
5 incurred to date and the costs that will be incurred as a
6 result of modification to the Company's retirement benefits
7 package should reasonably be recoverable in rates?

8 A. Yes, as I have testified, the Company has
9 been diligent in controlling the retirement benefits
10 package costs over the years and has made timely
11 adjustments to its retirement benefits in order to stay on
12 the leading edge of retirement benefits package costs. The
13 Company requests that the Commission accept the Company's
14 retirement benefits package at this time. With acceptance
15 of the plan, the Company would anticipate that recovery of
16 plan costs will reasonably follow in accordance with
17 previous Commission orders.

18 Q. Does this conclude your testimony?

19 A. Yes.