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IDAHO PUBLIC
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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 BENEFIT PACKAGE.	)	CASE NO. IPC-E-10-25

IDAHO POWER COMPANY

DIRECT TESTIMONY

OF

SHARON GERSCHULTZ

Q. Please state your name and business address.

A. My name is Sharon Gerschultz. My business address is 1221 West Idaho Street, Boise, Idaho.

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

A. I am employed by Idaho Power Company ("Idaho Power" or "Company") as the Director of Compensation and Benefits in the Human Resources Department.

Q. Please describe your educational background.

A. I earned my Bachelor of Arts in Economics from the University of California at Irvine and my Master of Business Administration in Finance from the University of Southern California.

I have earned the designations of Certified Compensation Professional through World at Work and Certified Employee Benefits Specialist through the Wharton School of the University of Pennsylvania.

Q. Please describe your work experience.

A. I have been in the human resources profession for seventeen years, specializing in compensation and benefits. Prior to joining Idaho Power, I was Boise Cascade Corporation's Compensation Manager. Prior to employment at Boise Cascade, I worked for Qwest in

Denver, Colorado, first as Benefits Manager, then as its Executive Compensation Manager.

I became employed with Idaho Power in 2005 in the Human Resources Department as Director of Employment and Compensation. In 2009, I became Director of Compensation and Benefits. I am responsible for payroll, compensation, health and welfare benefits, retirement programs, worker's compensation, and short- and long-term disability programs.

Q. What is the scope of your testimony in this proceeding?

A. My testimony describes: (1) the instructions that I received from Darrel Anderson, Executive Vice President of Administrative Services and Chief Financial Officer, regarding my annual review of the Company's retirement benefits package, (2) the analyses that were conducted as part of the annual retirement benefits review process, and (3) my recommended changes to the Company's retirement benefits package that were ultimately approved by Idaho Power's Board of Directors.

Q. Please describe your role with regard to the Company's annual review of its retirement benefits package.

A. I oversee the Company's annual review of its retirement benefits package.

Q. What instructions did you receive from Mr. Anderson prior to your review of the Company's retirement benefits package this year?

A. Mr. Anderson's instructions to me this year were similar to the instructions provided to me for prior years' reviews. I was asked to provide the Office of the CEO with comparisons of the Company's overall retirement benefits package costs to a representative sample of comparable employers' retirement benefits package costs as a representative market. I was further asked to make recommendations for changes to the Company's retirement benefits package based upon the Company's desire to remain competitive to the representative employment market, but with an eye toward perpetuating a package which encourages employee retention. Mr. Anderson also asked me to consider that retirement benefit portability is not in alignment with the Company's employee retention goals and may not be in the best interests of its customers.

Q. Please provide an overview of Idaho Power's current retirement benefits package.

A. As Mr. Anderson has testified, 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 2 percent is associated with the retiree medical benefit plan.

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 the Company's costs of service lower.

Q. How does the Company ensure that its retirement benefits package remains competitive in the marketplace?

A. The Company closely monitors trends in the utility industry and attempts to ensure that its overall retirement benefit package is within market ranges. The Company has a contract with a third-party individual consultant, Towers Watson (formerly Towers Perrin), to provide a comparison of the cost (as a percentage of pay) to Idaho Power of providing retirement benefits to the corresponding costs incurred by a peer group of companies. The Company reviews the Towers Watson information regarding the cost of the retirement benefits package in the context of the total employee compensation package. The Company's main objective in this review is to ensure that the cost of its retirement benefits package remains competitive when compared to other companies. A further comparison is conducted evaluating the Company's retirement benefits to a specific group of peer companies comprised of similar-sized, investor-owned utilities and fellow intermountain utilities.

Q. Has Towers Watson completed its 2010 review of Idaho Power's retirement benefits package?

A. Yes. Towers Watson 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.

Q. Have you prepared an exhibit that shows where Idaho Power ranks with other companies based upon the cost of its overall retirement benefits packages?

A. Yes. With the assistance of Towers Watson, I prepared Exhibit No. 1, which summarizes the results of the 2010 Towers Watson benchmark analysis. Page 1 of Exhibit No. 1 provides a brief summary of the independent market review conducted by Towers Watson. As can be seen on page 2 of Exhibit No. 1, Idaho Power ranks below its energy services industry peers and above the entire Towers Watson database which includes all industries. 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.

Q. After reviewing the results of the 2010 Towers Watson benchmark analysis, did you consider any modifications to the current retirement benefits package?

A. Yes. After reviewing the results of the 2010 Towers Watson benchmark analysis and the instructions that I received from Mr. Anderson, I considered a number of factors as I analyzed potential modifications to the Company's retirement benefits package.

Q. What were the main factors that you considered in evaluating potential modifications to the Company's retirement benefits package?

A. The most important factor I considered was the independent market data that indicated that the Company was already below the representative employment market costs. I tried to balance this first factor with a second key factor that I considered – Mr. Anderson's detailed instructions that the Company should maintain a market competitive retirement benefits package. The final factor that I considered was the relative portability of different retirement benefit options. Specifically, my focus was on the direction I received from Mr. Anderson emphasizing that the retirement benefits package should encourage longevity in the Company's workforce to promote the retention of its skilled workers.

Q. Why is employee retention such an important factor in the Company's decisions regarding employee retirement benefits?

A. The Company expects a significant loss of skilled works over the next decade. Many of these employees are in leadership positions or are in positions critical to operations. My recent analysis of the existing Idaho Power workforce found that 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. Critical Operations positions are those that plan, design, build, maintain, and support the plant and systems that generate and reliably deliver energy to Idaho Power customers. 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.

Q. What retirement benefits package modifications did you consider?

A. I considered three different potential modifications to the retirement benefits package: (1) shift the Company's current benefit weighting from the defined benefit plan to the 401(K) benefit plan, (2) eliminate the defined benefit plan and replace the defined benefit plan with a cash balance plan for all new employees, and (3) modify the defined benefit plan payout formulas for new employees. Ultimately, my recommendation to the Office of the CEO was to implement the third alternative, modify the defined benefit plan payout formulas for new employees.

Q. Please provide an overview of the first retirement benefits package modification that you considered.

A. The first modification that I considered was a simple shift of the Company's current benefit weighting from the defined benefit plan to the 401(K) benefit plan. The main benefit that the Company would derive from such a shift would be the benefit of more consistency in yearly costs compared to the current structure. Increasing the Company's contribution to the 401(K) benefit plan and reducing the defined benefit plan would not reduce costs over time but would tend to produce more level costs year over year due to less weight associated with the defined benefit plan. The defined benefit plan's costs and contribution requirements are directly impacted by general financial market fluctuations.

Q. As you considered a shift in the weighting from the defined benefit plan to the 401(K) benefit plan, what factors did you consider?

A. As I analyzed this modification, the primary factor that I considered was keeping the entire retirement benefits package competitive. Since the Company is already below the representative market, in order to keep the package competitive, I would need to develop an alternative that did not result in a reduction of the current retirement benefits by simply shifting the weighting between plans. As I considered the scenarios that would maintain the same value in the Company's retirement benefits, I concluded that this approach would not result in any material cost savings. That is, the costs of the defined benefit plan and 401(K) benefit plan would be essentially the same between plans over the long run.

Q. Can you explain why you believe that over time the costs of the defined benefit plan and 401(K) benefit plan would be the same?

A. Yes. If the goal is to provide similar level of benefit at retirement for an average employee, the Company would need to estimate the return that an employee would be able to earn by investing the contributed funds in the 401(K) benefit plan. That return over time would be similar to, or possibly lower than, that which the Company would earn in the defined benefit plan. To obtain an equivalent benefit at retirement for an average employee starting with the Company, the present value of the total Company contribution would be essentially the same under both plans to achieve the same retirement benefit.

Q. Were there additional factors that you considered?

A. Yes. I also considered the other factors that I mentioned. The 401(K) benefit plan is extremely portable and has no cost to an employee who chooses to leave the Company and join another company. This particular plan design attribute of the 401(K) benefit plan does not support the Company's desire and Mr. Anderson's guidance to emphasize and encourage longevity in the Company's workforce.

Q. Were there any other conclusions that you reached in your analysis of a shift between the defined benefit plan and a 401(K) benefit plan?

A. Yes. I reached two other conclusions. First, I noticed that while the present value 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.

Q. What was the second conclusion you reached?

A. As I further evaluated different scenarios, I concluded that while the defined benefit plan provided a very similar benefit as the 401(K) benefit plan to an average worker, it provided a higher level of benefits to an employee with more years of experience while the 401(K) benefit plan provided more benefit to a less experienced employee. This difference between plans was an additional factor in my decision that a shift from a defined benefit plan to a 401(K) benefit plan was not an appropriate alternative. My analysis concluded that the defined benefit plan would tend to attract and incent a more experienced workforce, whereas the 401(K) benefit plan would tend to attract a less experienced workforce. As I testified earlier, given the industry and Company's current workforce demographics that could result in 57 percent of the current workforce retiring in the next ten years, attracting and retaining experienced workers is one of the most critical objectives for the Company at this point in time. My final conclusion based on all of the factors I considered is that a shift in benefits weighting from the defined benefit plan to the 401(K) benefit plan may be appropriate in the future, but, at this time, such a shift is not appropriate for the Company. For this reason, I felt that this alternative approach did not warrant presentation to the Office of the CEO.

Q. Please provide an overview of the other two modifications to the retirement benefits package that you considered.

A. The other two alternatives that I evaluated focused solely on modifications to the defined benefit plan. The second alternative I considered would have eliminated the defined benefit plan and replaced the defined benefit plan with a cash balance plan for all new employees. The third alternative evaluated would modify the defined benefit plan payout formulas. Specifically, alternative three would reduce the retirement benefit percentage from the current 1.5 percent per year of service to 1.2 percent per year for new employees hired after January 1, 2011. Based on my evaluation of these two alternatives, I felt both approaches warranted presentation to the Office of the CEO.

Q. How does a cash balance pension plan differ from the Company's current defined benefit plan?

A. There are two general types of defined benefit plans: (1) "final average pay plans," often referred to as traditional pension plans, and (2) cash balance plans. In general, final average pay plans provide a specific benefit at retirement for each eligible employee, while cash balance plans specify the amount of contributions to be made by the employer toward an employee's retirement account.

In a traditional pension plan, a participant's benefit is calculated by multiplying a percentage factor by their final average pay and their years of service. The result is an annual benefit amount, typically paid as a single-life annuity each month, reduced for early retirement and joint annuity elections.

In a typical cash balance plan, a participant's account is credited each year with a pay credit as a percent of compensation and an interest credit (either a fixed rate or a variable rate that is linked to an index such as the one-year Treasury bill rate). When a participant becomes entitled to receive benefits under a cash balance plan, the benefits that are received are defined in terms of an account balance. Upon retirement, this balance may be paid as a lump sum, an annuity, or in some other form, depending on the plan provisions.

Under both programs, increases and decreases in the value of the plans' investments do not directly affect the benefit amounts promised to participants. Thus, the investment risks and rewards on plan assets are borne by the employer.

Q. Would the implementation of a cash balance plan shift any market risk share from Idaho Power to its employees?

A. No. Both the cash balance plan and the defined benefit plans assign all investment risk to the Company. However, with the design of Idaho Power's defined benefit plan, the employee bears 100 percent of the inflationary market risk because the plan does not include a cost-of-living adjustment.

Q. What was the Company's decision with regard to its evaluation of potential alternatives to the current retirement benefits package?

A. The Company has decided to implement alternative three, a reduction in the benefit percentage from the current 1.5 percent per year of service to 1.2 percent per year for new employees hired after January 1, 2011.

Q. Why did you recommend that the Company continue the defined benefit plan on a modified basis instead of moving to a cash balance plan for new employees?

A. While the implementation of a cash balance plan could be accomplished in a manner competitive with the market, the Company identified a number of issues that made a cash balance plan 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. Portability could someday be less of a risk factor if the age demographic of Idaho Power's workforce changes. However, today the negative impacts on retention of skilled workers override the potential future benefits. Further, moving to a cash balance plan for new employees would create a significant difference in retirement benefits between new and existing employees and would create additional accounting and plan administrative costs.

I recommended to continue the defined benefit plan on a modified basis because I believe this approach strikes the right balance between managing cost and supporting the Company's workforce objectives, as laid out for me by Mr. Anderson. The modified defined benefit plan is more aligned with the Company's understanding of market trends and will result in long-term cost savings by adjusting the retirement benefits available to a new salaried employee from 9.1 percent of base pay to 7.9 percent, a reduction of 1.2 percent of pay and an over 13 percent reduction in retirement benefits costs. The modified plan will also result in additional cost savings by promoting the retention of highly-skilled, fully-trained, long-tenured workers. It also honors a commitment made to the existing workforce.

Q. Will the changes to the Company's retirement benefits package result in immediate cost savings?

A. 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. A simple calculation can be performed to estimate the potential future cost savings by applying the resulting savings of 1.2 percent of pensionable earnings multiplied by the total pensionable earnings of $164 million, which results in approximately $1.97 million yearly savings once the workforce is fully transitioned.

Q. Does the Company view the defined benefit plan as an essential component to a competitive retirement benefits package?

A. Yes. The Company's defined benefit plan 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 employees. The defined benefit plan is highly valued by employees and provides a sense of financial security.

Based on current utility industry data, the Company believes that its defined benefit plan is still a very competitive benefit. The most recent survey of the Company's designated peer group reveals that all of the companies still have either a defined benefit plan or a cash balance plan for at least some segment of the their workforce and most still offer these plans to every new employee.

Q. Besides the concern regarding attracting and retaining a skilled workforce, are there other reasons that the Company should ensure that its retirement package remains at levels similar to other companies in the utility industry?

A. Yes. The Company and its customers benefit from having a workplace with strong employee relations between management and the workforce. Idaho Power's current workplace structure allows its employees to maintain operational flexibility regarding assignments and job duties. The flexibility that the Company currently enjoys minimizes the costs of doing business. Further, as I have looked at other utilities, it is clear that the Company's workforce structure has allowed it to avoid many additional employee-related costs that other utilities incur and must pass on to customers. In order to continue to maintain a strong relationship with employees and the associated lower costs benefits that the current work structure provides, the Company must ensure that its compensation programs, including the retirement benefits package discussed here, remain competitive in the aggregate.

Q. With the modification to the Company's defined benefit plan formula, how will Idaho Power's 2011 retirement benefits package compare to plans currently offered by its peer group as defined in the Towers Watson benchmarking analysis?

A. 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. A graphical illustration of this change in ranking is shown on page 4 of Exhibit No. 1. Additionally, when compared to the 12-company peer group, the new plan design results in Idaho Power ranking 11th, with ten companies above and two below, as shown on page 5 of Exhibit No. 1.

Q. Does this conclude your testimony?

A. Yes, it does.

BEFORE THE

IDAHO PUBLIC UTILITIES COMMISSION

CASE NO. IPC-E-10-25

IDAHO POWER COMPANY

GERSCHULTZ, DI
TESTIMONY

EXHIBIT NO. 1

Independent Market Review

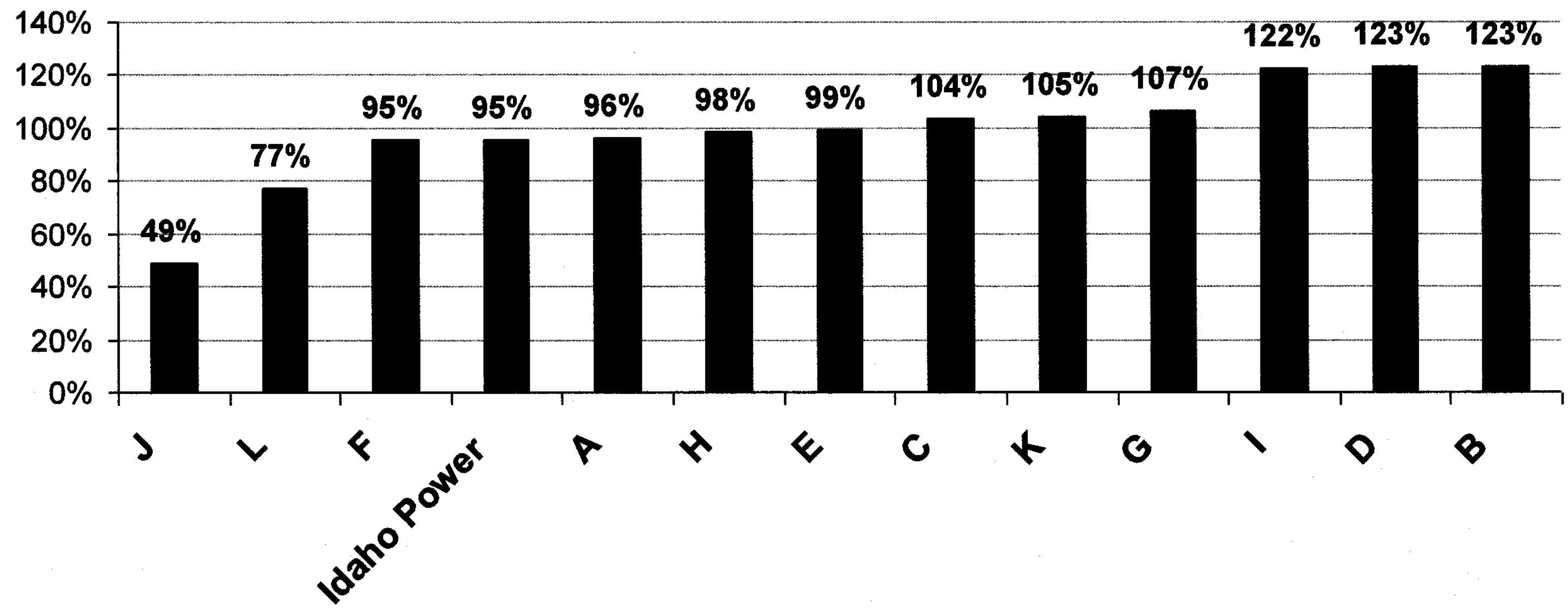
- Custom benchmark analysis performed by consultant Towers Watson
- 2010 Employee Benefits Information Center data used, consisting of 700 companies across all industries, including 92 energy industry companies
- Twelve Idaho Power peer group companies were analyzed separately
- Total Retirement Rewards were reviewed, including
  - Defined Benefit Pension Programs
  - Defined Contribution / 401(k) Programs
  - Retiree Medical Programs
- Values were calculated as a percent of pay
- Based on benefits available to a new salaried employee at time survey was conducted; most recent changes not reflected

Summary of Current Retirement Package Position for New Hires (today)

Combined Retirement Program Costs	
(as a percent of pay)	
Energy Services Industry Average	9.9%
Idaho Power	9.1%
Entire TW Database Average	8.0%

Retirement package current market position relative to twelve company peer group for New Hires (today)

Defined Benefit, Defined Contribution and Retiree Welfare



Summary of Proposed Retirement Package Position for New Hires (as of January 2011)

Combined Retirement Program Costs	
(as a percent of pay)	
Energy Services Industry Average	9.9%
Entire TW Database Average	8.0%
Idaho Power	7.9%

Retirement package proposed market position relative to twelve company peer group for new hires (as of January 2011)

1.2% Defined Benefit, Defined Contribution and Retiree Welfare