

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	
OF IDAHO POWER COMPANY FOR)	CASE NO. IPC-E-10-25
ACCEPTANCE OF ITS 2011 RETIREMENT)	
BENEFITS PACKAGE)	ORDER NO. 32239
)	

On October 1, 2010, Idaho Power Company filed an Application with the Commission requesting the Commission accept the Company's 2011 retirement benefits package. The Company did not request recovery of additional pension plan contributions in its Application.

In 2010, Idaho Power requested authorization to recover in customer rates the cash contributions the Company made to the defined benefits portion of its employee retirement package. The Commission approved the request in Order No. 31091, but directed Idaho Power to review and consider changes to its pension plan. Specifically, noting that Company pension payments may total nearly \$157 million during 2014-2018, the Commission stated that "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. 31091, p. 3. The Commission directed the Company to "consider changes to its retirement plan and address shareholder and employee liabilities in assignment of pension plan investment risk." *Id.* Finally, the Commission 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." *Id.*

On October 15, 2010, the Commission issued a Notice of Application and Notice of Modified Procedure establishing a 60-day period for filing written comments, followed by a 14-day response comment period. The Commission Staff and the Industrial Customers of Idaho Power (ICIP) filed comments on December 14, 2010, and Idaho Power filed responsive comments on December 28, 2010. On December 30, 2010, ICIP filed a Motion for Leave to File Sur-Reply Comments, with the comments attached. On January 6, 2011, Idaho Power filed a motion to allow responsive comments to ICIP's Sur-Reply comments, and also filed its comments in response to the Sur-Reply comments.

The Commission subsequently determined to convene a workshop “to provide the parties an opportunity to clarify statements and concerns expressed in their written comments, and provide the Commission the opportunity to ask questions to clarify the record.” Notice of Workshop, p. 2. The Notice of Workshop was issued on January 12, 2011, and the workshop was held on January 24, 2011. At the workshop, Idaho Power offered to provide additional information and analysis and stated a willingness to work with Staff and ICIP to reach agreement, if possible, on the extent of additional information and the schedule to produce it. The Commission subsequently issued an Order (1) directing the parties to discuss presentation of additional information and material to the Commission and to propose a schedule to complete the Commission’s review, and (2) clarifying that Idaho Power is not precluded from filing for recovery of 2010 contributions to its pension plan before this case is completed. Order No. 32169. Idaho Power filed a supplemental report on February 18, 2011, and the Commission’s Procedural Order No. 32207 directed the filing of additional comments no later than April 15, 2011.

Idaho Power’s supplemental report provides additional retirement benefits risk analysis. The Company describes the supplemental information as “providing an assessment of risk resulting from market fluctuations and also an assessment of potential future funding obligations which become revenue requirements that impact customers.” Supplemental Report, p. 1. The analysis uses the period of 1972 to 2009 to simulate a range of possible investment returns under different economic conditions. The analysis consists of two parts:

- (1) A forward-looking assessment of the potential investment risk associated with a number of investment strategies, ranging from low risk to high risk, under a range of economic conditions; and
- (2) A nine-year projection of the incremental annual plan contributions or plan costs that would exist under a range of economic conditions for the Company’s pension plan and hypothetical defined contribution plan alternatives.

Supplemental Report, p. 1.

Idaho Power analyzed the revenue requirement impact by projecting minimum annual funding requirements for the Company’s retirement plan from 2011 through 2019 that would exist under a range of economic conditions. The Company generated 116 different 9-year investment return scenarios based on the Company’s current asset allocation targets. The

Company considered a defined contribution plan as an alternative to its current pension plan, and its supplemental analysis presented a projected annual cost associated with the hypothetical defined contribution plan that would provide the same level of benefit at retirement as the current pension plan. The Company analyzed necessary contributions to the hypothetical defined contribution plan assuming both an 8% annualized return and a 7% annualized return.

The Company concluded that the expected average annual funding obligation for new employees over the next nine years would be higher if the Company moved to a defined contribution plan. The Company expects its average annual funding obligation for new employees for its existing plan to be \$1.2 million per year over the next nine years. If the Company moved to a defined contribution plan, the average annual funding obligation would be \$4.2 million for new employees based on actual expectation of a 7% annual return on investments. If a defined contribution plan earned returns equal to the defined benefit plan, the Company projected average funding obligations could be \$3.6 million per year. Supplemental Report, p. 11.

Idaho Power concluded in its supplemental report that its analysis demonstrates that the level of risk borne by Idaho Power's customers for its defined benefit plan is reasonable and is likely to result in lower costs over time as compared to other alternatives. Idaho Power believes it has acted reasonably and prudently to develop a market competitive retirement benefits package.

Supplemental Comments

Written comments were filed on Idaho Power's supplemental analysis by the Industrial Customers of Idaho Power (ICIP) and the Commission Staff. ICIP noted that the supplemental analysis "provides only estimated costs to ratepayers of the defined benefit pension plan compared to estimated costs of a hypothetical defined contribution plan which provide an identical benefit stream to retirees." ICIP Supplemental Comments, p. 3. ICIP asserts that the Company's supplemental analysis "fail to address the critical issue in this case – the allocation of investment risks between customers, shareholders and ratepayers under a defined benefit plan and a defined contribution plan." ICIP Supplemental Comments, p. 6. Noting that the Company assumed the same level of compensation for retirees under a hypothetical defined contribution plan, ICIP asserted that "without a complete analysis of the Company's compensation levels compared to its competitors, it is unreasonable to assume that the Company's matching

contributions must keep its employees in the same position as they would be under the defined benefit program.” ICIP Comments, p. 6.

ICIP also asserts that the Company’s supplemental report confirms that the existing retirement plan will continue to expose ratepayers to investment risk and result in significant future rate increases. The supplemental report projects contributions between now and 2019, and ICIP asserts that they will significantly affect customer rates. ICIP Supplemental Comments, pp. 7-8. ICIP argues the Commission should not authorize the Company to perpetuate this system without Idaho Power’s shareholders accepting some of the responsibility to keep the fund solvent. ICIP also is concerned that the report projects risk analysis only up to 2019, while Idaho Power has acknowledged that 56% of its current employees will be eligible for retirement by 2020. ICIP believes an analysis of only nine years into the future is an incomplete picture of the risk to customers. ICIP requests that the Commission require the Company to devise a plan that shifts responsibility and risk to its employees and/or shareholders. ICIP Supplemental Comments, p. 9.

Staff in its comments expressed some of the same concerns as in its original comments filed on December 14, 2010. Staff stated that the cost of Idaho Power’s retirement benefits and associated investment risk passed onto customers have not been completely addressed, although Staff acknowledges the Company did comply with the Commission’s Order to provide additional information. Staff Second Comments, p. 3. Staff expressed concern about some of the details of Idaho Power’s supplemental analysis, including the Company’s adjustment of expected returns to account for current interest rates. Staff also stated that the projected pension contributions illustrated by the Company in its supplemental report “are based on questionable assumptions.” Staff Second Comments, p. 3. For example, Staff questioned the Company’s projection of a 3% annual growth in the number of employees and the Company’s assumption of an annual wage increase of 4.5%. Staff Second Comments, pp. 3-4. Staff asserts the Company’s supplemental report does not go far enough in addressing the potential risks customers face during a period of declining market returns, nor does it adequately address the assignment of risk between customers, shareholders and employees. Staff Second Comments, p. 4. Nonetheless, Staff believes the Company’s report adequately satisfies the Commission’s request for additional information.

Idaho Power filed reply comments on April 15, 2011. The Company responded to the particular concerns expressed by ICIP and Commission Staff. The Company defended its adjustments and assumptions it made in the supplemental analysis. For example, the Company stated that its projected 3% annual growth in employees is reflective of the Company's actual historical employee growth rate. Idaho Power Second Reply Comments, p. 4. Likewise, the Company believes the annual wage increase assumption of 4.5% is reasonable based upon historical rates of inflation. The Company acknowledged that "inflation has been muted in recent years," but that there is a growing concern in the financial community regarding the re-emergence of inflationary pressures. Idaho Power Second Reply Comments, p. 5.

The Company also defended its use of a nine-year analysis based on the projections provided by its actuary. The Company explained that its actuary does not use models for longer time periods than 10 years due to the uncertainty and limited value of longer projections. Idaho Power Second Reply Comments, p. 6.

Regarding the assignment of risk between shareholders and employees, the Company asserts that the level of risk borne by customers has resulted in significant customer benefits through the return on assets contributed to the plan. The Company identifies these benefits as evident during 2004 through 2010 because no customer costs related to the defined benefit plan occurred until the spring 2010. The Company asserts that its customers "have received more than \$600 million in value from approximately \$100 million of plan contributions from 1976 to 2009." Idaho Power Second Reply Comments, p. 9. The Company argues that had it sought to minimize investment risk while providing the same level of benefits to employees, the cost to customers would have been significantly higher. Idaho Power Second Reply Comments, p. 10. Idaho Power also argues that shareholders should not be assigned any risk associated with the Company's retirement benefits. Customers provide funding for reasonable utility operations and expenses, including labor expenses. "Because shareholders have no opportunity to earn a return on pension contributions, it would be improper to assign pension costs and risk to them." Idaho Power Second Reply Comments, pp. 10-11.

Idaho Power contends it has demonstrated that the cost of its 2011 retirement benefits package are below the comparable costs of a peer group of companies and also below the comparable cost for all industries. In the supplemental report, the Company believes it demonstrated that its expected average annual funding obligation for new employees is less

under its existing defined benefit plan as compared to a defined contribution plan that would provide the same level of compensation benefit. The Company asserts that its investment portfolio associated with its defined benefit plan appropriately balances risk and returns at a lower cost than the modeled defined contribution plan alternatives. Idaho Power Second Reply Comments, pp. 12-13.

COMMISSION FINDINGS

In its Application and in its comments, Idaho Power requested the Commission issue an Order accepting the Company's 2011 retirement benefits package "as a reasonable approach to providing employee benefits." Idaho Power Second Reply Comments, p. 13. The Commission has determined to issue an order stating the Commission's acceptance of Idaho Power's 2011 retirement benefits package. Commission acceptance is not endorsement in perpetuity of the Company's retirement benefits expenses. It is a recognition that the Company provided the analysis of its retirement program requested by the Commission. As with all Idaho Power operating expenses, the Commission expects Staff and other concerned parties will thoroughly review retirement package expenditures for reasonableness and fairness as those expenditures are proposed for recovery from customers in future rate cases.

Idaho Power verified in this case that it completes an annual review of its retirement benefits package. When Idaho Power completes its next periodic pension analysis, it should broaden its review to include total employee compensation and benefits, compared with employee compensation provided by other utility companies. The Company is directed to provide the review to Staff upon completion.

ORDER

IT IS HEREBY ORDERED that the Commission accepts Idaho Power's 2011 retirement benefits package.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. IPC-E-10-25 may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order or in interlocutory Orders previously issued in this case. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 28th
day of April 2011.



PAUL KJELLANDER, PRESIDENT



MACK A. REDFORD, COMMISSIONER



MARSHA H. SMITH, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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