

WELDON B. STUTZMAN
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0318
IDAHO BAR NO. 3283

RECEIVED
2011 APR -8 AM 9:54
IDAHO PUBLIC
UTILITIES COMMISSION

Street Address for Express Mail:
472 W WASHINGTON
BOISE ID 83702-5918

Attorney for the Commission Staff

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.)
)
) **SECOND COMMENTS OF**
) **THE COMMISSION STAFF**
)**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Weldon B. Stutzman, Deputy Attorney General, and in response to Procedural Order No. 32207 on March 16, 2011, submits the following supplemental comments.

BACKGROUND

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 does not request recovery of additional pension plan contributions in this Application.

Earlier this year the Company requested authorization to recover in customer rates its 2010 cash contributions to its defined benefits plan. The Commission approved the request in Order No. 31091, but directed the Company to review appropriate 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 Notice of Application and Notice of Modified Procedure establishing a 60-day period for filing written comments, followed by a 14-day responsive comment period. The Commission Staff and the Industrial Customers of Idaho Power (ICIP) filed comments on December 14, 2010 recommending that the Commission reject the Company’s Application. 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.

On January 26, 2011, the Commission issued Order No. 32169 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 in this case.” Order No. 32169, p. 2. Pursuant to that Order, Idaho Power on February 18, 2011, filed its Supplemental Report: Retirement Benefits Risk Analysis (supplemental report) providing additional information regarding retirement benefits for its employees.

STAFF REVIEW

Staff reviewed the Company’s supplement report and has some of the same concerns as discussed in its original comments filed on December 14, 2010. The overall cost of Idaho Power’s

retirement benefits and the associated investment risks passed on to customers have not been completely addressed. In Order No. 31091, the Commission directed the Company to consider changes to its retirement plan, address shareholder and employee liabilities in the assignment of pension plan investment risk, and review alternatives to reduce the burden placed on customers. Although Staff does not agree with the Company's evaluation because of questionable assumptions and the short time period used for comparison purposes, nevertheless, the Company did comply with the Commission's order. In these comments Staff addresses problems with the Company's supplemental report, and reiterates its concerns with the risks of the pension plan that are borne solely by customers.

Supplemental Report

The analytical framework of the supplemental report 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 existing pension plan and for hypothetical defined contribution plan alternatives.

To determine the range of economic conditions in its analysis, the Company used a historical period of 1972 to 2009 to simulate the various possible returns under various economic conditions, including both good and bad investment markets. This information provided the data necessary to develop a forward looking assessment of potential pension fund returns. The Company then adjusted the returns downward to account for current interest rates. Staff believes it is not necessary to adjust long-term potential returns downward for interest rates when a long-term 37-year historical period is used to determine possible ranges of investment risk. A 37-year period should be sufficient to show a variety of potential market returns, and further adjustment reduces the integrity of the assumptions and their results. Because market returns are the primary driver of required pension contributions, even small adjustments have a significant impact on the cost of the plan.

The Company concludes that a defined benefit pension plan is less costly than a defined contribution plan. Staff believes the projected pension contributions illustrated in Charts 5-6, and the hypothetical defined contribution plan costs illustrated in Charts 7-8 of the supplemental report are based on questionable assumptions. The Company projects a 3 percent annual growth in

eligible employee count, which results in a total eligible employee count of 2,619 in year 2019, compared to 2,007 eligible employees in 2010. Staff believes it unlikely the Company will need to add an additional 612 employees by 2019. The Company's calculations also assume an annual wage increase of 4.5 percent. With the prevailing economic conditions, automatic wage increases by utility companies have come under serious scrutiny in recent years. Staff believes it is unreasonable to assume a 4.5 percent annual increase through 2019.


The Company used the same assumptions for both the pension plan and the defined contribution plan projections for comparative purposes, but the effect of the assumptions has a disparate impact on the cost of both plans. The assumptions may increase the projected cost of a defined contribution plan more than they would increase the projected costs of the pension plan. When calculating the cost of a pension plan, many factors influence the total contribution, including age and sex of the employee and number of years left until retirement. For a defined contribution plan, the cost of the plan is based solely on employee compensation. Even though the assumptions used were consistent for both plans, the potential inaccuracy of the assumptions makes the conclusions of the report questionable.

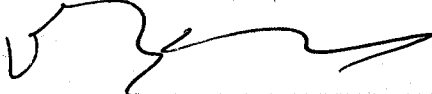
The Company only used a 9-year projection to compare the costs and assess the risks associated with the different plans. This projection indicates that the revised pension plan for new entrants is less costly than a defined contribution alternative. However, the 9-year projection does not adequately assess the risk associated with a pension plan. A pension plan is less costly in its early stage primarily because market volatility does not have the same impact on the asset balance of the plan in the early years. As the plan's assets grow, market volatility creates a greater risk, which is ultimately passed on to customers. Attachment No. 1 of the Company's original reply comments in this case illustrates this point. At the end of 2007, the Company's "old" pension plan had an asset value of \$409,577,546 compared to a value of just \$291,077,937 one year later. The negative investment return during 2008 caused upward pressure on pension contributions today. These costs are ultimately paid by customers. Staff believes that customers need to be protected from this type of risk. If the same negative investment return occurred during the infancy stages of the plan for new entrants, the impact of the investment loss would be less than \$2 million, compared to the approximate \$120 million loss of the existing plan. 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 shareholders and employees.

Staff is cognizant of the inherent difficulty of projecting future pension contributions, especially for long periods of time. Any result is based on multiple assumptions that may not be accurate. Staff does not agree with all of the assumptions used by the Company, however, and does not agree with the conclusions in the Company's supplemental report. Given all the economic uncertainties and difficulties in predicting market returns, employees' retirement dates, and the salaries and ages of new employees not yet hired, Staff believes the Company's report adequately satisfies the Commission's request for additional information.

STAFF RECOMMENDATION

After reviewing the supplemental report filed by Idaho Power, and Commission Order No. 31091, Staff believes that the Company has complied with the Commission's directive. The Commission ordered the Company to consider changes to its retirement plan, address shareholder and employee liabilities in the assignment of pension plan investment risk, and to review alternatives to reduce the burden placed on customers, and in that regard, the Company has complied. Staff believes the Company could do more to address the assignment of risk. Nonetheless, the supplemental report provides the Commission with additional information. Staff intends to periodically review the Company's overall retirement benefits package, including the level of benefits provided to employees and the associated risk of the defined benefit pension plan that is ultimately borne by the customers.

Respectfully submitted this  day of April 2011.



Weldon B. Stutzman
Deputy Attorney General

Technical Staff: Donn English

i:\umisc\comments\ipce10.25\stode supplemental comments

CERTIFICATE OF SERVICE


I HEREBY CERTIFY THAT I HAVE THIS 8TH DAY OF APRIL 2011, SERVED THE FOREGOING **SECOND COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. IPC-E-10-25, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

LISA D NORDSTROM
DONOVAN E WALKER
IDAHO POWER COMPANY
PO BOX 70
BOISE ID 83707-0070
E-MAIL: lnordstrom@idahopower.com
dwalker@idahopower.com

GREG W SAID
TIM E TATUM
IDAHO POWER COMPANY
PO BOX 70
BOISE ID 83707-0070
E-MAIL: gsaid@idahopower.com
ttatum@idahopower.com

PETER J RICHARDSON
GREGORY M ADAMS
RICHARDSON & O'LEARY
PO BOX 7218
BOISE ID 83702
E-MAIL: peter@richardsonandoleary.com
greg@richardsonandoleary.com

DR DON READING
6070 HILL RD
BOISE ID 83703
E-MAIL: dreading@mindspring.com



SECRETARY