McDowell Rackner & Gibson PC

VIMLA MATHI
Direct (503) 595-3922
vimla@mcd-law.com

September 25, 2014

VIA ELECTRONIC AND U.S. MAIL

PUC Filing Center
Public Utility Commission of Oregon
PO Box 1088
Salem, OR 97308-1088

Re: UM 1633 – In the Matter of OREGON PUBLIC UTILITY COMMISSION, Investigation into Treatment of Pension Costs in Utility Rates

Attention Filing Center:

Enclosed for filing in the above-referenced docket is an original and five copies of Idaho Power Company's Opening Testimony of Bruce E. MacMahon. A copy of this filing has been served on all parties to this proceeding as indicated on the attached certificate of service.

Please contact this office with any questions.

Very truly yours,

Vimla Mathi
Legal Assistant

Enclosures

cc: Service List

Phone: 503.595.3922 • Fax: 503.595.3928 • www.mcd-law.com
419 Southwest 11th Avenue, Suite 400 • Portland, Oregon 97205-2605

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

DOCKET NO. UM 1633

In the Matter of	)
	)
PUBLIC UTILITY COMMISSION OF OREGON,	)
	)
Investigation into Treatment of Pension Costs in Utility Rates.	)

IDAHO POWER COMPANY

OPENING TESTIMONY

OF

BRUCE E. MACMAHON

September 25, 2014

Q. Please state your name, business address, and present occupation.

A. My name is Bruce E. MacMahon. My business address is 1221 West Idaho Street, Boise, Idaho 83702 and I am the Director of Accounting and Financial Reporting for Idaho Power Company ("Idaho Power" or "Company").

Q. Are you the same Bruce MacMahon who previously filed testimony in this proceeding?

A. Yes. I filed rebuttal testimony previously in this case, designated as Idaho Power/100.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to clarify Idaho Power's position in this case and to respond to the request of the Public Utility Commission of Oregon ("Commission") for information regarding a "transition to the use of cash contributions to account for pension expense on a going forward basis and recommendations to address the existing prepaid pension asset, the transition period, the mechanism to recover the cash contributions, and the mechanism to implement the transition."[1]

Overview of Idaho Power's Position

Q. What is your understanding of the purpose of this docket?

A. The purpose of this docket, as I understand it, is to establish an appropriate policy for rate recovery of pension-related costs on a prospective basis.

Q. What is the current method of pension cost recovery applied in Oregon for Idaho Power?

A. Currently, the level of pension cost recovery included in Idaho Power's Oregon rates is based on a FAS 87 determination of annual pension expense, as established in the Company's last general rate case. The level of recovery included in the

[1] Prehearing Conference Memorandum (July 10, 2014).

Company's rates remains fixed until modified as part of a future general rate case. Differences between actual pension cost recovery and actual FAS 87 expense are not tracked for recovery or credit through a balancing account or other mechanism at this time.

Q. Is Idaho Power experiencing the same financing costs as described by the Joint Utilities in this case?

A. No. Idaho Power currently has an accrued pension liability on its books. This means that for Idaho Power, cumulative FAS 87 pension expense currently exceeds the cumulative cash contributions made to the pension plan to date.

Q. Does Idaho Power expect to remain in an accrued pension liability position in the long-term?

A. No. Idaho Power believes its current pension liability will trend toward a prepaid asset in the next few years, but does not anticipate balances to be significant, whether a net liability or a prepaid asset over the next five years.[2]

Q. Is Idaho Power requesting that the Commission consider modifying the method used to determine recoverable pension costs as part of this case?

A. No. The Company believes that the existing regulatory treatment for the recovery of pension cost in the Oregon jurisdiction sufficiently provides Idaho Power with a reasonable opportunity to recover its prudently incurred pension costs at this time and should remain unchanged for Idaho Power. Further, because Idaho Power is not experiencing the same financing costs identified by the Joint Utilities in this case, the Company is not currently proposing rate base treatment for cumulative differences between cash contributions to the pension plan and FAS 87 expense.

[2] Inherent uncertainties of projecting beyond that timeframe make it difficult to predict if the Company will have significant or sustained balances in a net prepaid or a net liability position

Cash-Based Pension Cost Recovery

Q. As the Commission contemplates transitioning to a cash basis of pension cost recovery, what important accounting and regulatory issues should it consider?

A. As the Commission contemplates a transition to a cash-method of pension recovery, there are several issues the Commission should consider. First, cash contributions tend to be more volatile than FAS 87 expense; certain years require large payments and other years may require little or no contribution at all. Because of this inherent volatility, a transition to a cash basis of recovery must be coupled with a balancing account or other deferral mechanism to avoid undue rate instability for customers.

Second, the legal requirements governing the minimum required cash contributions are subject to frequent change, which can further contribute to the volatility of cash contributions. FAS 87-based methodology, on the other hand, has been consistent for nearly 30 years.

Third, the Commission should be aware that funding requirements and actual contributions are not synonymous. Because factors other than pension funding laws and regulations determine how much a company contributes, a cash basis of accounting should be based on actual contributions, and not solely on minimum required funding. For example, a company's actual contribution may exceed the minimum level to reduce required Pension Benefit Guarantee Corporation premiums.

Lastly, the Commission should also consider that a change from the existing recovery method of FAS 87 expense will require a transition plan to account for the differences between methods. Under the current FAS 87 method, all of a company's cash contributions made to date will ultimately be recovered through FAS 87 expense, as a future allowable cost. In the case where a prepaid pension asset exists, a change from FAS 87 to a cash method converts these future allowable costs into historic costs. That is, if future rates are based on future cash contributions, then historic contributions that were made by the utilities but not yet expensed and recoverable in rates would then become historic costs, which are generally ineligible for recovery in rates. Absent a transition plan for this result, these costs will be denied an opportunity for recovery.

Q. Does Idaho Power have a preferred regulatory framework for cash-based pension cost recovery, should the Commission choose to transition to such treatment?

A. Yes. Idaho Power is currently recovering its prudently incurred pension costs on a cash basis in its Idaho jurisdiction and would recommend a mechanism in Oregon that closely mirrors the Idaho treatment. The Company's pension cost recovery in Idaho includes the following structure:

(1) The Company establishes a balancing account that tracks, on a cumulative basis, the difference between cash amounts contributed to the pension plan and amounts included in rates.

(2) An appropriate amortization period for the cash contributions in the balancing account will be evaluated during a revenue requirement proceeding and will begin simultaneously with the approved period for recovery.

(3) There may be circumstances where the Company could choose to contribute in excess of the minimum amount required by ERISA or prior to the final due date of the minimum payment; such contributions, while potentially subject to longer amortization, will not be disallowed solely because they are made sooner than legally required.

(4) The Company will not be expected to expense its prudently incurred cash contributions prior to the Commission's review during a revenue requirement proceeding and inclusion in rates.

(5) As part of a revenue requirement proceeding the Company may request the inclusion of imminent, but as yet unpaid, contributions that have been finally determined by the Company's actuary as "known-and-measurable" expenses to be incurred.

(6) The Company should earn a carrying charge on the unamortized balance of deferred cash contributions.

From an accounting perspective, the Idaho mechanism is an acceptable treatment of deferred pension cost that meets the requirements for continued deferral under SFAS 71.

Q. Why is a balancing account necessary under a cash method of pension cost recovery?

A. A balancing account tracks the difference between cash contributions and the amount recovered in rates. In this way, the Company is still assured its recovery of the cash contributions, but is able to spread or "smooth" the recovery of large contributions over several years, rather than in a single year under true cash recovery. For cash basis of pension recovery, a balancing account can mitigate the single-year impact to customer rates and contribute to rate stability.

Q. Should the Commission address the existing prepaid pension assets (or accrued pension liability) under a transition to the use of cash contributions as the basis of recovery?

A. Yes. The Commission must address the treatment of the prepaid pension assets (or accrued pension liability) if a transition to a cash basis were to occur. Specifically, the Commission should authorize the amortization of the prepaid pension asset/accrued pension liability balance to begin coincident with the collection of cash contributions. The amortization of the asset/liability would either add to, or subtract from, the level of cash-based recovery until the amortization period is complete. The

Commission should determine the amortization period separately for each utility based on its own respective unique circumstances.

Q. If the Commission were to transition to a cash basis of pension cost recovery according to the framework laid out by Idaho Power, is there assurance that there will not be an accumulation of the types of asset/liabilities the Commission has sought to address in this case?

A. Unfortunately, no. If the Commission sees value in maintaining rate stability through a balancing account, it is likely that asset or liability balances will accumulate over time, representing the difference between cash contributed to the pension plan and revenue recovered from customers. In other words, utilities may be faced with the same problem of untimely recovery of cash contributed to the plan, except for different reasons.

Q. What carrying charge should the Commission authorize to be applied to a pension balance account?

A. Because of the potential for balancing account balances to accumulate to material levels over extended periods of time, the Commission should allow utilities to apply a carrying charge equal to their respective current authorized rates of return.

Conclusion

Q. Please summarize your testimony.

A. The ,Company believes that the current method of pension cost recovery in its Oregon jurisdiction remains adequate for Idaho Power. Although Idaho Power is not requesting a change to the methodology, the Company provided its response to the Commission's request to address a transition to the use of cash contributions to account for pension cost on a going forward basis. As described above, there are a number of methods to recover prudently incurred pension costs and Idaho Power believes that continuing recovery on the basis of FAS 87 best achieves the balance for a simple and effective method of recovery. Because Idaho Power is not currently experiencing financing costs for a prepaid pension asset, it does not have a proposal to address the recovery of these costs.

Q. Does this conclude your testimony in this case?

A. Yes, it does.

CERTIFICATE OF SERVICE

I hereby certify that I served a true and correct copy of the foregoing document in Docket UM 1633 on the following named person(s) on the date indicated below by email addressed to said person(s) at his or her last-known address(es) indicated below.

David J. Meyer Avista Corporation David.meyer@avistacorp.com	Elizabeth Andrews Avista Utilities Liz.andrews@avistacorp.com
Patrick Ehrbar Avista Utilities Pat.ehrbar@avistacorp.com	Tommy A. Brooks Cable Huston Benedict Haagensen & Lloyd tbrooks@cablehuston.com
G. Catriona McCracken Citizens' Utility Board of Oregon catriona@oregoncub.org	Chad M. Stokes Cable Huston Benedict Haagensen & Lloyd cstokes@cablehuston.com
Bob Jenks Citizens' Utility Board of Oregon bob@oregoncub.org	OPUC Dockets Citizens' Utility Board Of Oregon dockets@oregoncub.org
Mark R. Thompson Northwest Natural mark.thompson@nwnatural.com	E–filing Northwest Natural efiling@nwnatural.com
R. Bryce Dalley Pacific Power bryce.dalley@pacificorp.com	Oregon Dockets Pacificorp, DBA Pacific Power oregondockets@pacificorp.com
Douglas Tingey Portland General Electric doug.tingey@pgn.com	Sarah Wallace Pacific Power Sarah.wallace@pacificorp.com
Jason W. Jones PUC Staff – Department of Justice Jason.w.jones@state.or.us	Jay Tinker Portland General Electric pge.opuc.filings@pgn.com
Pamela Archer Cascade Natural Gas pamela.archer@cngc.com	Brian Bahr Public Utility Commission of Oregon Brian.bahr@state.or.us
Maryalice Rosales Cascade Natural Gas Maryalice.rosales@cngc.com	Michael Parvinen Cascade Natural Gas Michael.parvinen@cngc.com
S. Bradley Van Cleve Davison Van Cleve bvc@dvclaw.com	Tyler C. Pepple Davison Van Cleve tcp@dvclaw.com

McDowell Rackner & Gibson PC
419 SW 11th Avenue, Suite 400
Portland, OR 97205

Edward Finklea
Northwest Industrial Gas Users
efinklea@nwigu.org

DATED: September 25, 2014

Vimla Mathi
Legal Assistant

McDowell Rackner & Gibson PC
419 SW 11th Avenue, Suite 400
Portland, OR 97205