McDowell Rackner & Gibson PC

WENDY MCINDOO
Direct (503) 595-3922
wendy@mcd-law.com

January 30, 2015

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 Prehearing Brief. 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,

Wendy McIndoo

Wendy McIndoo
Office Manager

Enclosures

cc: Service List

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UM 1633

In the Matter of PUBLIC UTILITY COMMISSION OF OREGON, Investigation into Treatment of Pension Costs in Utility Rates.	**IDAHO POWER COMPANY'S PREHEARING BRIEF**

I. INTRODUCTION

Pursuant to Chief Administrative Law Judge (ALJ) Michael Grant's Prehearing Conference Memorandum of January 5, 2015, Idaho Power Company ("Idaho Power" or "Company") files this Prehearing Brief. The Public Utility Commission of Oregon ("Commission") opened this investigation in response to several recent proceedings where utilities have requested that the Commission expand its approach to pension cost recovery to include costs that current policy does not address. In response to these requests, the Commission issued Order No. 12-408, which opened an investigation to "review treatment of pension expense on a general, non-utility specific basis."[1] The purpose of this docket is to complete that investigation, and to establish an appropriate policy for rate recovery of pension-related costs on a prospective basis.

The primary issue before the Commission is how to account for a company's prepaid pension asset or accrued pension liability. A prepaid pension asset or accrued pension liability is the difference in a company's books between the cumulative cash contributions to

[1] *Re Northwest Natural Gas Co.*, Docket UG 221, Order No. 12-408 at 4 (Oct. 26, 2012).

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Portland, OR 97205

its pension plan and the cumulative recorded Financial Accounting Standard ("FAS") 87 expense. If the difference is positive, the utility has a prepaid pension asset. If the difference is negative, the utility has an accrued pension liability.

The Joint Utilities (Northwest Natural Gas Company, Portland General Electric Company, PacifiCorp, Avista Utilities, and Cascade Natural Gas) all have significant prepaid pension assets and associated financing costs. In Oregon, pension cost recovery is based on FAS 87 expense, not cash contributions. Therefore, to the extent a utility has cumulatively greater cash contributions than FAS 87 expense, the utility is effectively recovering its cash contributions over time through FAS 87 expense and thereby incurring a financing cost due to the lag between the cash outlay and recovery through rates. The Joint Utilities request that the Commission continue to allow pension costs to be recovered based on FAS 87 expense, as well as, adopts a policy that allows for the recovery of the financing costs of a utility's prepaid pension asset.[2] Idaho Power, however, has not made the same request. Idaho Power requests no change to its method of pension cost recovery.

Unlike the Joint Utilities, Idaho Power currently has an accrued pension liability, not a prepaid pension asset, and therefore is not incurring the financing costs that concern the Joint Utilities. Although Idaho Power currently recovers its pension costs in its Idaho jurisdiction on a cash basis, the Company does not request a transition in Oregon from FAS 87-based rate recovery to cash-based rate recovery. However, if the Commission does require the Company to set rates based on its cash contributions, the Company requests that the Commission allow it to use the same methodology as it currently uses in its Idaho jurisdiction.

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[2] Joint Testimony/100, Joint Parties/2-3.

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II. ARGUMENT

A. Idaho Power is Differently Situated and a Policy Determination Appropriate for the Joint Utilities is not Necessarily Appropriate for Idaho Power.

The Commission's existing regulatory treatment for the recovery of pension expense provides Idaho Power with a reasonable opportunity to recover its prudently incurred pension costs.[3] Thus, Idaho Power requests no change to its method of pension cost recovery. Unlike the Joint Utilities, Idaho Power has never had a significant or sustained prepaid pension asset or accrued pension liability.[4] Although the Company currently has an accrued pension liability, the Company has in the past had a prepaid pension asset. Importantly, however, the Company's historical prepaid pension asset and historical and existing accrued pension liability has never been significant or sustained.[5] Moreover, the Company does not anticipate that its future prepaid pension assets or accrued pension liabilities will be significant or sustained over the next five years.[6] The Joint Utilities, on the other hand, have testified that they all have significant, existing prepaid pension assets and that they expect their prepaid pension assets to persist into the future.[7] The fact that Idaho Power's historical and forecast prepaid pension assets and accrued pension liabilities have been consistently small weighs against embedding a prepaid pension asset or an accrued liability into its rate base. Including a prepaid pension asset or accrued pension liability in rate base is more appropriate in circumstances where the amounts funded by the company cumulatively in excess of FAS 87 expense are significant and expected to remain so for a number of years.[8] Thus, for Idaho

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[3] Idaho Power/100, MacMahon/11; Idaho Power/200, MacMahon/2.

[4] Idaho Power/100, MacMahon/9.

[5] Over the past 20 years, Idaho Power had a significant accrued liability in only one year, and within a year that liability decreased 77 percent. Idaho Power/100, MacMahon/9; Staff/102, Bahr/1.

[6] Idaho Power/100, MacMahon/9; Idaho Power/200, MacMahon/2.

[7] Joint Testimony/100, Joint Parties/11-12; Joint Testimony/200, Vogl/13-15.

[8] Idaho Power/100, MacMahon/9.

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Power, it is reasonable to continue to use FAS 87 for pension cost recovery without a rate base adjustment based on the existence of a prepaid pension asset or accrued pension liability.

Idaho Power is the only utility in this docket that has a pension plan that remains open to new participants and is not frozen or closed.[9] In a closed plan, as remaining participant employees approach retirement, expected future salary increases have diminishing effect on FAS 87, putting upward pressure on the prepaid asset.[10] In addition, other factors such as actuarial assumptions, funding elections, and timing differences have all combined to put Idaho Power's plan in a position different from the Joint Utilities.[11] Thus, Idaho Power is unique in that its plan remains open and has not experienced the same upward pressure on a prepaid asset as the Joint Utilities.

The Joint Utilities have requested that the Commission allow recovery of the financing costs associated with each company's prepaid pension asset in order to allow each company to recover its prudently incurred pension costs.[12] Parties have generally indicated that if a prepaid pension asset is included in rate base then it is reasonable to likewise reduce rate base if a utility is carrying an accrued pension liability.[13] While such reciprocal treatment may be reasonable for the Joint Utilities, Idaho Power's circumstances are unique and do not currently warrant such treatment.

If the Commission chooses to adopt any modification to the current regulatory treatment for pension costs in light of the issues raised in this case, the Commission should recognize

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[9] Idaho Power/100, MacMahon/8.

[10] Idaho Power/100, MacMahon/8.

[11] Idaho Power/100, MacMahon/8.

[12] Joint Testimony/100, Joint Parties/2-3.

[13] *See, e.g.,* Staff/300, Bahr/20.

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Portland, OR 97205

that Idaho Power is situated differently than the Joint Utilities and therefore an across-the-board application of such modification would be inappropriate.

B. If the Commission Chooses to Transition to Cash-Based Pension Cost Recovery, Idaho Power Requests Approval of the Same Methodology Used in its Idaho Jurisdiction.

Idaho Power, along with all of the parties, supports continued use of FAS 87 to set rates in Oregon.[14] FAS 87 is more conducive to utility ratemaking because it is less volatile than cash contributions.[15] FAS 87 is intended to smooth a company's pension expense over the life of its pension plan and help to show a more consistent cost from year to year.[16] Moreover, unlike the legal requirements governing the minimum required cash contributions, which have changed frequently in the last several years, the FAS 87-based methodology has been consistent for nearly 30 years.[17]

However, if the Commission transitions to cash-based pension cost rate recovery, Idaho Power requests that the Commission allow Idaho Power to use the same framework as it currently uses in its Idaho jurisdiction.[18] In Idaho, the Company recovers its cash contributions through a balancing account designed to address the volatility of cash contributions and ensure reasonable rate recovery of pension costs.[19] Cash contributions are amortized through the balancing account and the Company earns a carrying charge on the unamortized balance.[20] The Company must also demonstrate the prudence of all cash contributions greater than the legally required minimum and rates can include forecast cash

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[14] Idaho Power/100, MacMahon/9-10; Idaho Power/200, MacMahon 6-7; Staff/100, Bahr/2; CUB/100, Jenks-McGovern/42; NWIGU-ICNU/100, Smith/44.

[15] Idaho Power/200, MacMahon/3.

[16] Idaho Power/100, MacMahon/9-10.

[17] Idaho Power/200, MacMahon/3.

[18] Idaho Power/200, MacMahon/4-5.

[19] Idaho Power/200, MacMahon/4-5.

[20] Idaho Power/200, MacMahon/4-5.

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contributions found to be known and measurable.[21] In sum, the Idaho methodology allows Idaho Power to recover its pension costs in a reasonable manner and adopting the same mechanism in Oregon would result in administrative efficiencies and consistency across the Company's entire service area.

III. CONCLUSION

The Commission should affirm that the current pension cost recovery methodology is reasonable for Idaho Power and should remain unchanged. Due to the Company's unique factual circumstances, the issues and concerns that have prompted this investigation do not apply to Idaho Power.

DATED: January 30, 2015.

Respectfully submitted,

McDOWELL RACKNER & GIBSON PC

Adam Lowney
Attorney for Idaho Power Company

IDAHO POWER COMPANY
Lisa Nordstrom
Lead Counsel
Idaho Power Company
P.O. Box 70
Boise, Idaho 83707

[21] Idaho Power/200, MacMahon/4-5.

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

Ralph Smith
Larkin & Associates PLLC
rsmithla@aol.com

DATED: January 30, 2015

Wendy McIndoo

Wendy McIndoo
Office Manager

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