PENNSYLVANIA PUBLIC UTILITY COMMISSION
Harrisburg, Pennsylvania 17105-3265

Defined Benefit Pension Plans: Accumulated Benefit Obligations, Projected Benefit Obligations and Fair Value of Plan Assets

Public Meeting – February 5, 2009
C-0001

MOTION OF VICE CHAIRMAN TYRONE J. CHRISTY

In January 2008, the Commission released a Focused Management & Operations Audit (Management Audit) of West Penn Power Company d/b/a Allegheny Power (Company).[1] The Management Audit examined various management, business and operational practices in eight distinct functional areas of the Company's operations. One of the practices examined in detail was "Compensation and Benefits", which included an evaluation of the Company's pension obligation and its compliance with the Pension Protection Act of 2006.[2]

Page 29 of the Management Audit report states:

> The Pension Protection Act of 2006 will have far-reaching impact on how defined benefit pension plans like Allegheny Energy's are funded and administered. For example, starting on January 1, 2008 one requirement of the Act directs vested benefits be 100% funded within seven years. Single employer plans that have unfunded vested benefits must pay the Pension Benefit Guaranty Corporation a variable rate premium equal to \$9 per \$1,000 (or 0.9%) of unfunded vested benefits.

Exhibit IV-4 of the Management Audit summarizes the company's pension obligation measured as of October 1, 2006:

	Accumulated Benefits Obligation	Projected Benefits Obligation
Benefit Obligation	\$1,018,502,232	\$1,105,176,100
Fair Value of Plan Assets	\$897,795,256	\$897,795,256
Difference	\$120,706,976	\$207,380,844
Percent Funded	88.2%	81.2%

[1] Pursuant to 66 Pa. C.S. § 516(a), the Commission shall provide for audits of any electric, gas, telephone or water utility whose plant-in-service is \$10 million or more. While telecommunications companies with plant-in-service of \$10 million or more technically are covered by the mandate, audits of these companies generally have been suspended consistent with approved alternative regulatory plans. Currently management audits are performed for approximately 27 large and medium sized electric, gas and water companies.

[2] As modified by the Worker, Retiree, and Employer Recovery Act of 2008.

The dollar figures associated with the pension obligation summarized above were set forth in a report by Watson Wyatt Worldwide titled *Actuarial Valuation Report* dated February, 2007. This report was requested by Allegheny Energy, Inc.

An article in the October 5, 2008 *Pittsburgh Post-Gazette, Market design jeopardizes pensions* reports that Allegheny Energy's pension fund is 87% funded, which represents a deficit of $140 million. Comparable figures for Equitable Resources are 92% and $6 million respectively. The article states, "Wall Street's 20 percent slide this year could affect employees and retirees entitled to pension benefits. Under legislation approved by Congress in 2006, funding shortfalls have to be made up sooner and restrictions on benefits kick in once a plan is less than 80% funded."

The Management Audit and the article in the *Pittsburgh Post-Gazette* focus attention on the continued financial viability of pension funds in today's economic times. In the utility industry, significant funding increases may be necessary in order to avoid placing restrictions on benefits. In that event, questions arise as to what effect the need for this funding could have on the cost of capital, capital budgets, day-to-day operations, service and rates paid by utility consumers.

In order to examine these matters further, information needs to be elicited from utilities under the Commission's jurisdiction regarding their defined benefit pension plans. Responses to the data requests and questions set forth below should be filed with the Secretary of the Commission within sixty days of the entry of the Opinion and Order prepared pursuant to this motion.[3] The Opinion and Order resulting from this Motion should be served on all larger jurisdictional utilities that are subject to ongoing management audits by this Commission.[4] The only response required from those utilities that do not administer a defined benefit pension plan is simply a statement to that effect.

Therefore, I move that the utilities covered by this Motion:

1. Provide an explanation as to how compliance with the requirements of the Pension Protection Act of 2006 will be accomplished. This should include the amount, by year, of annual contributions to the pension fund beginning in 2006 through 2008 and the projected contributions, by year, to the pension plan going forward, through 2014, to the extent known. If contributions to the pension fund are made more frequently than on an annual basis, provide the contributions on that basis.

2. Provide a summary of the most recently available pension obligation including the measurement date, the Fair Value of the Plan Assets as disclosed by the audited information

---

[3] This information is requested pursuant to our authority contained in Section 505 of the Public Utility Code, 66 Pa. C.S. § 505.

[4] The utilities are: Aqua Pennsylvania, Inc., Columbia Gas of Pennsylvania, Inc., Duquesne Light Company, Equitable Gas Company a Division of Equitable Resources, Inc., Metropolitan Edison company, National Fuel Gas Distribution Corporation, PECO Energy Company, Pennsylvania-American Water Company, Pennsylvania Electric Company, Pennsylvania Power Company, PPL Electric Utilities Corporation, The Peoples Natural Gas Company (d/b/a Dominion Peoples), Philadelphia Gas Works, T.W. Phillips Gas & Oil Company, The York Water Company, UGI Utilities, Inc., UGI Central Penn Gas, Inc., UGI Penn Natural Gas, Inc., and West Penn Power Company (d/b/a Allegheny Power).

from company pension plan as documented in the most recently filed Form-10K[5], the Accumulated Benefit Obligation (except where no longer used consistent with FASB Statement No. 158), the Projected Benefit Obligation, as well as the actual returns on assets for the past year, the expected return on assets, and the discount rate. In addition this summary should include the number of participating employees, the participants with deferred benefits and the participants receiving benefits.[6] Also, provide any studies that have performed to determine the information requested above and the date the next study is scheduled to be completed.

3. Provide each annual pension plan valuation for a period of 3 years subsequent to this initial request as well as the date that each report is expected to be completed. The information should be the same as requested in paragraph 2 above. In addition, please provide any pension valuation reports that occur at other than the annual valuation date due to plan settlements or curtailments, with the information as requested in paragraph 2 above.

4. Explain any actions the company is taking to address the recent activity in the financial markets as it relates to the pension plan.

5. If a jurisdictional utility's pension plan is part of an overall corporate pension plan, then the responses to the data requests and questions above should be qualified to include the method under which the utility participates in the corporate pension plan and how amounts are allocated to the utility, the percentage of the overall pension obligation that is applicable to the jurisdictional utility, and the actual amounts allocated to the utility consistent with the filing to be provided pursuant to paragraph 2 above.

6. Identify whether the company is currently using a funding basis or an accrual basis (FAS 87) for pension expense for ratemaking purposes. If the basis used for ratemaking purposes has changed since 2006, provide the date(s) of the change and the reasons that the change was made.

7. That the Office of Special Assistants prepare an Opinion and Order consistent with this Motion.

__________________________	______________________________________
DATE	**TYRONE J. CHRISTY, VICE CHAIRMAN**

[5] If the most recently filed Form-10K does not include data from the fourth quarter of 2008, provide a summary of your pension obligation as of December 31, 2008 or later.

[6] "Participating employees" is the number of active employees covered by the plan. "Participants with deferred benefits" is the number of active employees who qualify for retirement but choose to remain employed, or who have left the company for another job and have not rolled their pension into another fund or who have chosen to delay initiation of their pension benefit. "Participants receiving benefits" is the number of former employees or spouses receiving retirement benefits.