

1 **Q. Please state your name, business address and present position with Rocky**
2 **Mountain Power (the Company), a division of PacifiCorp.**

3 A. My name is Erich D. Wilson. My business address is 825 N.E. Multnomah, Suite
4 1800, Portland, Oregon 97232. My present position is Director, Human
5 Resources.

6 **Qualifications**

7 **Q. Please briefly describe your education and business experience.**

8 A. I have been employed as the Director of Human Resources since March 2006.
9 From March 2001 to March 2006, I was the Director of Compensation for the
10 Company. Prior to coming to the Company, I held various positions within the
11 area of human resources (operations, benefits and staffing), but for the majority of
12 my career I have directed the design and administration of compensation
13 programs. I received a Bachelor's degree in Economics (Business) from the
14 University of California at San Diego in 1992. In addition, I achieved the
15 Certified Compensation Professional status from the American Compensation
16 Association (ACA) in 1999 and have kept this certification current through
17 attending various educational programs and seminars.

18 **Q. Please describe your present duties.**

19 A. My primary responsibilities include managing the Company's human resource
20 function, including compensation, benefits, compliance, staffing, training and
21 development, employee and labor relations, and payroll. I focus on assisting the
22 Company in attracting, retaining, and motivating qualified employees along with
23 the administration of all associated human resource programs and employee

24 experiences.

25 **Purpose of Testimony**

26 **Q. What is the purpose of your testimony?**

27 A. The purpose of my testimony is to provide an overview of the compensation and
28 benefit plans provided to employees at the Company and support the costs related
29 to these areas included in the test period. This overview focuses on our base pay,
30 annual incentive, pension and healthcare benefit plans. These plans are designed
31 to allow the Company to attract and retain the employee talent necessary to
32 deliver safe and reliable service at a reasonable cost.

33 **Background**

34 **Q. Can you please place in perspective the labor costs the Company is seeking to
35 recover in this case?**

36 A. Yes. Overall the Company is seeking approximately \$504 million in labor
37 expenses, including base pay, incentive compensation, pension, and benefits
38 costs. This amount is significantly lower than the \$530 million in labor expenses
39 that were included in the Company's 2006 rate case filing (Docket 06-035-21),
40 and less than one million dollars more than those included in the 2007 rate case
41 filing. Moreover, on a cents/kwh basis, wages and benefits have declined by 10
42 percent since the 2006 filing. Thus, even in the face of rising medical costs and
43 negotiated wage increases, our wage and benefits expense is being reduced.

	Docket 06-035-21 <u>September 2007</u>	Docket 08-035-08 <u>June 2009</u>	<u>% Change</u>
Wages and Benefits expense	\$530,452,779	\$ 504,259,095	-4.9%
Total Load - MWh	56,117,405	59,275,031	5.6%
cents/kWh	0.95	0.85	-10.0%

44 **Q. How has the Company managed to hold the line on labor costs in the current**
45 **environment?**

46 A. I believe our success is due primarily to the emphasis on cost control brought to
47 the Company by MEHC. Consistent with this new emphasis, the Company has
48 implemented a workforce restructuring program that has allowed us to reduce
49 staffing in key areas without compromising our critical goals of safety, reliability,
50 and customer service. In addition, we have continued to re-design our health,
51 welfare, and retirement plans to shift more responsibility from the Company to
52 our employees.

53 **Q. As background, please briefly describe the Company's compensation**
54 **philosophy.**

55 A. Two fundamental principles underlie the Company's compensation philosophy.
56 First, the Company's primary goal in determining employee compensation is to
57 provide pay at the market average. Competitive compensation is critical to
58 attracting and retaining qualified employees in a market that is becoming
59 extremely competitive, and allows the Company to do so without incurring
60 excessive or unreasonable costs. Thus, the Company endeavors to provide the
61 same general pay levels and components in its total remuneration package as are
62 included in the packages provided by its competitors for labor.

63 Second, the Company believes that, in order to encourage superior
64 performance, a certain percentage of each employee’s market compensation must
65 be “at risk.” Accordingly, under the Company’s Annual Incentive Plan, each
66 employee has the opportunity to receive total compensation at the market average,
67 so long as the employee performs at an acceptable level. However, employees
68 will earn less than the average remuneration when performance is less than
69 acceptable and, conversely, will earn higher than the average remuneration when
70 performance is exceptional.

71 **Total Compensation**

72 **Q. How does the Company determine the total cash compensation package for**
73 **each position?**

74 A. At least annually, the Company collects market data for comparable jobs and
75 calculates the average data point for total cash compensation for each position.
76 To do so, we use a variety of compensation studies put out by various
77 experts/organizations, including Hewitt & Associates, Towers Perrin, and Mercer.
78 In addition, the Company recently acquired access to an on-line tool called
79 MarketPay.com. MarketPay.com provides electronic access to all of the
80 compensation studies we have traditionally used and some additional surveys,
81 allowing us to more efficiently perform information searches and job and pay
82 comparisons.

83 After we determine the appropriate level of total cash compensation for a
84 position, we then determine the portion of that compensation that will constitute
85 the “at-risk” portion –that is, the “target” incentive pay. The Company sets the

86 “at-risk” portion by reviewing market compensation using the various
87 compensation studies described above. The “at-risk” portion is typically in the
88 10-25 percent range; however, incentive pay for a few employees is set as high as
89 75 percent. Generally speaking, the higher the position is within the Company,
90 the higher the percentage of target incentive pay. The remaining percentage of
91 total compensation is referred to as “base compensation.”

92 **Annual Incentive Plan**

93 **Q. What is the objective of the Annual Incentive Plan?**

94 A. The objective of the Annual Incentive Plan is to provide our employees with
95 incentive to perform at an above average level. This is achieved by putting a
96 percentage of the competitive total compensation “at risk.” If an employee
97 performs at an acceptable level for the position, the employee will receive the
98 target incentive amount which will allow the employee to earn compensation
99 comparable to similar positions in the market. If an employee fails to perform at
100 an acceptable level, the employee will receive less than the target incentive or no
101 incentive at all. When this situation occurs, the employee will be paid less than
102 the comparable total cash compensation in the marketplace for that year.
103 Conversely, for exceptional performance, an employee may receive above his or
104 her target incentive level.

105 The ability to earn a higher-than-target incentive payment provides the
106 employee with an incentive to exceed average performance.. This opportunity is
107 an essential counterbalance to the risk the employee faces that his or her
108 performance in a particular year will be less than acceptable, with the

109 consequence that total compensation will be less than market in that year. The
110 symmetry of the incentive element provides the Company with the financial tool
111 to encourage exceptional performance and discourage less than acceptable
112 performance. As would be expected from a well-designed, symmetrical plan, the
113 average incentive element is approximately at the target incentive level.

114 **Q. Is incentive compensation a greater benefit to customers than compensation**
115 **consisting solely of base compensation?**

116 A. Yes. In the Company's experience, a higher level of overall employee
117 performance is achieved when a portion of pay is "at risk." In addition, the
118 Company's incentive compensation plan enables the Company to attract and
119 retain talented employees in the increasingly competitive market for skilled labor.
120 Therefore, while the total cost of the Company's base plus incentive
121 compensation program is equal to average total cash compensation (just as a
122 salary-only program would be) the benefit to customers is greater.

123 **Q. How is the incentive compensation plan implemented?**

124 A. The Company's Annual Incentive Plan provides performance awards based on the
125 following: 1] the employee's performance against individual goals 2] the
126 employee's performance against group goals including safety goals; and 3]
127 success in addressing new issues and opportunities that may arise during the
128 course of the year.

129 **Q. What are the individual goals and how are they set?**

130 A. Our individual employee goals start with the goals set for the Company as a
131 whole. Each year, the Company President, in conjunction with MEHC, sets the

132 overall goals for the Company. For example, attached as Exhibit RMP___(EDW-
133 1) is a copy of Rich Walje's goals for 2008. As can be seen, all of these goals
134 focus on delivering safe and reliable electricity to our customers and providing
135 excellent customer service. Mr. Walje's goals include safety goals such as
136 reducing lost time, recordable, preventable, and restricted duty incidents.
137 Customer service related goals include implementing local and regional customer
138 service improvements, improving visibility and relations with industrial
139 customers and consumer associations, and improving overall customer
140 satisfaction. Some goals relate to operating within established budgets, including
141 maintaining operating costs, controlling the cost of capital expenditures, and
142 achieving operational efficiencies/financial targets that allow the Company to
143 remain a low-cost utility. Other key goals relate to operational performance,
144 major project delivery, organizational planning and development, and quality of
145 service and regulatory commitments. The achievement of each and every one of
146 these goals will serve to benefit our customers.

147 **Q. How do the Company goals relate to individual employee goals?**

148 **A.** These Company-wide goals are used not only to evaluate Mr. Walje's
149 performance, but they also serve as the foundation for the goals set for each
150 individual employee. Thus, when an individual employee sets his or her own
151 individual goals for the year, they are set by reference to how that employee's
152 position can advance the overall goals of the Company. Examples of individual
153 goals for Rocky Mountain Power for 2008 are attached as Exhibit
154 RMP___(EDW-2). The employee's performance on individual goals accounts for

155 approximately 70 percent of his or her overall evaluation.

156 **Q. What are the group goals?**

157 A. In addition to performance against individual goals, all employees are evaluated
158 against six common or “group” goals. These group goals describe the
159 characteristics the Company believes are important to the success of all
160 employees, *i.e.*, customer focus, job knowledge, planning and decision making,
161 productivity, builds relationships and leadership. Detailed descriptions of these
162 characteristics are attached as Exhibit RMP__(EDW-3). The employee’s
163 performance with respect to these group goals accounts for approximately 30
164 percent of the employee’s overall evaluation.

165 **Q. Explain the third category.**

166 A. In the course of any one year, challenges will arise that were not contemplated by
167 the goals set at the beginning of the year. For instance, the Company may
168 become involved in a significant transaction, such as a purchase or sale, or the
169 Company may contend with unexpected outage conditions. In these cases, some
170 percentage of the employee’s evaluation may reflect his or her performance under
171 these unforeseen conditions.

172 **Q. Are any of the employees judged on the financial performance of the**
173 **Company?**

174 A. No. While all employees are expected to operate within applicable budgets,
175 corporate financial performance and returns are not a factor in determining the
176 amount of incentive compensation awarded under the plan. The Company does
177 maintain a separate plan for executives that awards bonuses based on overall

178 corporate performance; however, the Company does not ask customers to absorb
179 the costs associated with that plan.

180 **Q. Please explain the level of incentive compensation that you have included in**
181 **this application?**

182 A. This application includes a request for total Company incentive compensation
183 based on a July 1, 2008 to June 30, 2009 test period in the amount of \$29.5
184 million. This is the total budgeted incentive compensation payout at the target
185 incentive level for each employee participating in the incentive plan. The Utah
186 portion of this expense is \$12.4 million.

187 **Q. What level of incentive compensation does the Company expect to pay out on**
188 **a year on year basis?**

189 A. As the Company's pay philosophy is to provide total compensation at the market
190 average, and because target incentive compensation is set to market average, we
191 expect that we will pay out, on a year after year basis, the target levels of
192 incentive compensation.

193 **Q. Does the Company recommend the full target level of incentive compensation**
194 **plus base compensation be included in rates?**

195 A. Yes, for several reasons. First, customers should fully support the cost of
196 incentive compensation because, as I previously mentioned, it is an essential
197 component of an overall market-based competitive compensation program.
198 Reducing customer support for incentive pay would result in under-market
199 salaries, making it impossible for the company to recruit and maintain a qualified
200 labor force, which would in turn make it impossible for the Company to provide

201 safe and reliable service. Moreover, the goals of the plan are designed to
202 encourage superior performance on the part of our employees to pursue the goals
203 that directly benefit our customers—safety, reliability, and customer service. This
204 is precisely the type of prudently designed incentive plan program that provides
205 direct benefits to customers and which customers should therefore support.

206 **Retirement Plans (This section is confidential)**

207 [REDACTED]
208 [REDACTED]
209 [REDACTED]
210 [REDACTED]
211 [REDACTED]
212 [REDACTED]
213 [REDACTED]
214 [REDACTED]
215 [REDACTED]
216 [REDACTED]
217 [REDACTED]
218 [REDACTED]
219 [REDACTED]
220 [REDACTED]
221 [REDACTED]
222 [REDACTED]
223 [REDACTED]

224 [REDACTED]
225 [REDACTED]
226 [REDACTED]
227 [REDACTED]
228 [REDACTED]
229 [REDACTED]
230 [REDACTED]
231 [REDACTED]
232 [REDACTED]
233 [REDACTED]
234 [REDACTED]
235 [REDACTED]
236 [REDACTED]
237 [REDACTED]
238 [REDACTED]
239 [REDACTED]
240 [REDACTED]
241 [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

242 (End of confidential section)

243 **Q. Since the retirement plan changes implemented in June 2007, that were**
244 **reflected in Docket 07-035-93, have there been any other changes to the plan**
245 **design or benefit provided?**

246 A. The Company regularly reviews its benefit plans. In 2008, the Company has
247 decided to offer a choice to those that are currently participating in the cash
248 balance retirement plan. Specifically, employees will be allowed to decide
249 whether they would prefer their retirement be determined through the cash
250 balance formula (these employees would still be eligible for participation in the
251 current 401k plan design) or through an enhanced 401k plan where they would
252 receive a Company-provided fixed contribution in addition to any Company
253 match which is based on regular participation (i.e. 65% on the first 6% of
254 employee contribution).

255 **Q. Is the primary purpose for offering this choice to reduce overall pension**
256 **expense?**

257 A. No. As I have mentioned above, the labor market in our industry has become
258 increasingly competitive and it has become harder and harder to attract and retain
259 a qualified workforce. Accordingly, we are offering this “choice benefit” as a
260 means to retain existing employees. That said, this move is definitely consistent
261 with our recent decisions to shift volatility/risk to the employees participating in
262 the retirement program.

263 **Q. What result will this change have on retirement program costs?**

264 A. The approach will in fact result in a pension expense reduction. In this filing, the
265 Company’s actuaries, have estimated that 50 percent of the eligible employees

266 will shift to the enhanced 401k plan. The impact of this expected shift is reflected
267 in the expense reductions shown in Mr. Steven R. McDougal's revenue
268 requirement exhibit. As an offset, however, there will be an increased impact on
269 the 401k expense as is also shown in this filing.

270 **Q. Have you prepared an estimate of the net impact of a decrease to pension**
271 **costs and an increase to 401k costs in line with the plan options you have**
272 **described?**

273 A. Yes. The following table details the projected net impact of the reduction in the
274 pension costs and the increase in 401k costs that are included in this filing as
275 compared to the 2007 budget. As shown below the total expense impact of this
276 offering over both the pension and 401k plan is a reduction of \$24.9 million on a
277 total company basis and \$10.4 million allocated to Utah.

	<u>June 2009 Case</u>	<u>2007 Budget Before Change</u>	<u>Total Company Change</u>	<u>Utah Jurisdiction Change</u>
Pension	21,437,893	56,600,000	(35,162,107)	(14,736,026)
401(k)	28,700,784	18,461,907	10,238,877	4,290,993
Total	50,138,677	75,061,907	(24,923,229)	(10,445,033)

278 **(End of confidential section)**

279 **Employee Health Benefits**

280 **Q. Please describe the Company's health care benefits.**

281 A. As with all of our benefits, we attempt to provide our employees with the same
282 level of health care benefits that are provided by the employers with whom we
283 compete for labor. In our case, this means offering our employees what I would

284 describe as market average health benefits. And of course we seek to provide
285 these benefits as economically as possible.

286 **Q. How does the Company ensure that it is providing these competitive benefits**
287 **as economically as possible?**

288 A. The Company relies of the advice of its consultants Hewitt Associates to ensure
289 that it is securing market competitive benefits at the best possible rate. Hewitt
290 Associates are respected experts in their field and the Company has relied on
291 them for many years. With the help of Hewitt Associates, the Company
292 periodically reviews and adjusts the sharing of healthcare-related costs with
293 employees in an effort to stabilize cost, manage volatility, and respond to
294 changing market practices.

295 **Q. Has the Company faced any particular challenges in the past several years**
296 **relevant to its provision of health care benefits?**

297 A. Yes. It is widely understood that health care costs have been rising sharply over
298 the past several years. As a result, the Company experienced significant increases
299 in its health care benefit costs.

300 **Q. Has the Company taken any action to contain these cost increases?**

301 A. Yes. Beginning in 2008 the Company made adjustments to the cost sharing and
302 plan design to reduce costs and to align with market practices. In particular, the
303 Company established a base medical plan with a high deductible and a cost
304 sharing of 90/10. The Company continues to offer choice into other plans,
305 however, except for a \$300 deductible plan that is offered in rural areas, these
306 plans are set at a cost sharing of 74/26. All new hires as of January 1, 2008 have

307 the option of selecting the high deductible plan or opting out of coverage. Exhibit
308 RMP___(EDW-4) provides market data compiled by Hewitt Associates outlining
309 competitive healthcare sharing structures.

310 **Q. What is the Company's rationale for sharing healthcare-related costs with**
311 **employees?**

312 A. This structural shift adheres to the Company's goal of providing competitive
313 benefits to its employees, while doing so in a manner that is fair and prudent for
314 our customers.

315 **Q. Please explain the level of healthcare costs you have included in this**
316 **application and compare that to previous fiscal year expenses.**

317 A. There has been a significant upward trend in healthcare costs in recent years. For
318 calendar years 2006 and 2007, actual healthcare expenses totaled \$47 million and
319 \$49 million, respectively and 2008 healthcare expenses were projected to be
320 \$53.4 million in Docket 07-035-93. Consistent with this trend, the Company has
321 included in this application healthcare expenses on a total Company basis of
322 \$54.6 million as shown in Mr. McDougal's exhibits. The Utah allocated share of
323 healthcare costs is \$22.9 million.

324 Hewitt Associates has informed the Company that current trends indicate
325 the rates for the Company's health benefits are anticipated to increase further in
326 2009 by between 8 and 10 percent. Specifically, Hewitt Associates projects an
327 8.5 percent increase for medical benefits. In comparison, MEHC, which uses
328 Watson Wyatt as its plan expert advisor, shows a trend for MEHC in the same
329 range, with the actual increase expected to be 9 percent. The shifts in structure

330 previously described pass more of the increasing expense on to employees rather
331 than customers.

332 **Q. Does this conclude your direct testimony?**

333 A. Yes.