Q. Are you the same Erich D. Wilson who has previously testified in this proceeding?

A. Yes, I am.

Purpose of Testimony

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to respond to adjustments proposed by Division of Public Utilities ("DPU") witness Mr. Mark Garrett, and Committee of Consumer Services ("CCS") witness Mr. Helmuth Schultz regarding compensation (including annual merit and incentive pay), medical benefits, pension and relocation expenses.

Q. Please summarize your testimony.

A. My testimony shows that:

- As a result of the emphasis on cost control brought to the Company by MidAmerican Energy Holdings Company ("MEHC"), even in the face of rising medical costs and negotiated wage increases, the Company's total wage and benefits are being held almost constant.
- The Company's Annual Merit Planning, is prudent and aligned with the Company's commitment to providing compensation levels at the market average. Reducing merit pay for non-union employees, as recommended by DPU and CCS, would result in below-market salaries for our workforce, limiting our ability to attract a competitive workforce and thus jeopardizing the Company's safety, reliability and customer service goals.
- The Company's Annual Incentive Plan is an integral part of the Company's compensation strategy, and implements a "pay-at-risk" approach that provides

proper incentives to both executive and non-executive employees for the achievement of important Company goals. In particular, my testimony will demonstrate that objectives set for employees under the plan are tied directly to goals that benefit our customers—safety, reliability and customer service. Moreover, the evidence supports the Company's view that the plan is resulting in a more effective workforce. Finally, because target pay under the plan is set at market levels, reducing incentive pay (like reducing merit pay), as recommended by DPU and CCS would result in below-market salaries for our workforce, limiting our ability to attract a competitive workforce and thus jeopardizing the Company's safety, reliability and customer service goals.

- The Company's proposed health care expenses are based on careful research into medical care costs that was conducted specifically for the Company based on industry and Company-specific data. The Company's health care expenses thus reflect the best forecast of costs for the Test Year. On the other hand, the reductions proposed by DPU are based on more general and therefore less accurate data. Moreover, the adjustment proposed by CCS is based upon a mistake in assumptions.
- PacifiCorp is currently in the process of shifting its pension plan from a traditional defined benefit to a defined contribution plan. This change will bring the Company more in line with the general direction in the industry while at the same time reducing expense volatility. These changes require some initial administrative costs, but will benefit customers over time. For this reason the adjustments to pension expenses proposed by DPU and CCS should be rejected.

- PacifiCorp offers a relocation program that is designed to provide competitive benefits in the event of relocation. Increases in the Company relocation expense are driven by market forces beyond the Company's control. Reducing relocation benefits as recommended by CCS would make it difficult for the Company to attract the necessary labor to support the Company's operational and service goals.
- The Company's filing in this case reflects the substantial productivity improvements adopted by the Company under MEHC ownership. In particular, the filing reflects a significant reduction in force, as well as savings in benefit plans. As a result, further reducing labor costs by the BLS index, as recommended by DPU, would result in an overstatement of productivity savings far beyond that which could reasonably be expected.
- While the reduction-in-force achieved through the CIC severance program results in very significant savings for the Company overall, maintaining this leaner employee complement will require increases in overtime worked by certain key employees. This overtime is critical in responding to outages and other emergency situations. Accordingly, the overtime adjustment recommended by CCS should be rejected.

Background

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

A. Yes. Overall the Company is seeking approximately $503 million in labor expenses, including base pay, incentive compensation, pension and benefits costs. This amount is significantly lower than the $530 million in labor expenses that were included in the last rate case filing. Moreover, on a cents/kwh basis, wages and benefits have declined by 9 percent since the last filing Thus, even in the face of rising medical costs and negotiated wage increases, our wage and benefits expense is being reduced.

	Sept 07 Case Docket 06-035-21	CY 2008 Case Docket 07-035-93	% Increase
Wages and Benefits expense	$530,452,779	$503,314,708	-5.1%
Total Load - MWh	56,117,405	58,505,683	
cents/kWh	0.95	0.86	-9.0%

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

A. I believe our success is due primarily to the emphasis on cost control brought to the Company by MEHC. Consistent with this new emphasis, the Company has implemented a workforce restructuring program that has allowed us to reduce staffing in key areas without compromising our critical goals of safety, reliability and customer service. In addition, we have continued to re-design our health, welfare, and retirement plans to shift more responsibility from the Company to our employees. Thus, despite the fact that DPU and CCS recommend numerous specific adjustments to our filing, the Commission should not lose sight of the fact that our request assumes some very substantial cost reductions.

Q. Has the Company implemented other changes due to MEHC ownership that are relevant to your testimony?

A. Yes. In addition to efficiency, our new owners place a very heavy emphasis on safety, system reliability and customer service. For this reason, our incentive and merit pay programs are more focused than ever on the successful attainment of these goals. As a result of this focus, I am pleased to report that we have seen corresponding improvements in each of these areas.

Q. Can you provide examples of these improvements?

A. Yes. First, Mr. Walje's direct testimony details the significant progress made by the Company in 2007. In addition, I am attaching as Exhibit RMP___(EDW-1R-RR), which contains the Company analysis of Mr. Walje's progress against his 2008 goals for the first quarter of 2008. While it is early in the year, this document shows the following:

- Rocky Mountain Power has improved its safety performance by meeting improvement goals in six out of seven key safety metrics, including recordable incident and accident rates, medical treatment cases and preventable vehicle accidents.
- Rocky Mountain Power has seen significant improvements in key reliability metrics, including system average interruption duration (9 percent improvement); system average interruption frequency (2 percent improvement) and customer average interruption duration (6.7 percent improvement).
- Rocky Mountain Power is continuing to improve in virtually all customer service and customer satisfaction metrics, including the J.D. Power and TQS customer service surveys, and is on target to meet goals for improvement in customer guarantee failures, billing accuracy and Commission complaints.

Q. What conclusions do you draw from these improvements relevant to your testimony?

A. I conclude that our compensation and benefits policies are working. In particular, I believe that our compensation and benefit packages are competitive enough to attract and retain a first class workforce. Further, I believe that our merit and incentive pay programs motivate our employees to perform at an excellent level to meet the Company's goals of safety, reliability and customer service, all to the benefit of our customers and the Company.

Proposed Adjustments to the Annual Merit Plan

Division of Public Utilities

Q. Please describe Mr. Garrett's proposed adjustment to PacifiCorp's Annual Merit Plan.

A. Mr. Garrett proposes to exclude all non-union merit pay adjustments. This proposed adjustment would reduce payroll expenses by $3,269,182, or $1,397,616 for the Utah jurisdiction.

Q. What reasons does Mr. Garrett give for his proposed adjustment?

A. Mr. Garrett argues that the Commission should not include these merit increases because the Company has not included adjustments for (1) the effect of employees leaving and being replaced by lower paid employees; and (2) the possibility that capitalization percentages can increase, causing less labor to be expensed.

Q. Do you agree with these arguments?

A. No, I do not. As a threshold matter I would note that it is reasonable to assume that merit increases given to non-union employees will result in additional expense to the Company in the test year. We have always annualized pay increases in our filings and I am not aware of such increases ever being disallowed in Utah, or in any other state for that matter.

Q. Please explain why the effect of lower cost employees replacing those who have left should not be included as an adjustment in this case.

A. There are three reasons why it would not make sense. *First*, as a general matter, the Company does not "save" expenses when new employees replace those leaving through regular attrition. The job market for our employee complement is quite competitive and we are generally seeking to attract our new talent from our competitors. In turn, our competitors maintain similar job structures. Therefore we are rarely able to bring in an employee at a salary lower than the one we were paying the departing employee.

Second, the Company has removed from expenses any amounts paid to employees leaving under the CIC severance program. These employees' positions were eliminated as part of an effort to increase efficiency within the Company. The vast majority of these employees will not be replaced and therefore no pay increases for these employees are included in the case.

Third, even if we were to assume some cost savings due to employees leaving and being replaced at a lesser cost, they would be outweighed by other payroll increases that would need to be considered. In particular, the Company did not include in this case the effect on payroll expenses of promotions or what we call "out-of-cycle equity adjustments" and promotions. Out-of-cycle equity adjustments are made when the market for a certain position shifts and the Company finds that it needs to adjust compensation for that position in order to equalize pay between a new, more highly-compensated employee and those in comparable positions. Promotions (and associated pay increases) are necessary in order to motivate and retain a qualified workforce. Both of these occur regularly, and have a real impact on the Company's expenses. For instance in 2007 the Company incurred $1,640,541 additional expenses for promotions and $97,660 out-of-cycle equity adjustments. However, we have not included the effect of these in this case. If we were to factor in the effect of departing employees (whether or not these resulted in a decrease in expense) we would also need to include figures in the effect of pay increases due to promotions and out-of-cycle adjustments.

Q. Please explain why increases in capitalization percentages should not be included as an adjustment.

A. Mr. Garrett is correct that capitalization percentages can increase. However, they can decrease just as easily. Moreover it is difficult to predict what the changes will be. For these reasons, neither increases nor decreases in capitalization percentages should be included.

Q. Are there other problems with Mr. Garrett's adjustment?

A. Yes. Even if Mr. Garrett's general theory behind the adjustment were correct, he has implemented his calculations incorrectly. The specific problems with Mr. Garrett's calculations will be discussed in Mr. McDougal's testimony.

Committee of Consumer Services

Q. Please describe Mr. Schultz's proposed adjustment to PacifiCorp's Annual Merit Plan.

A. Mr. Schultz proposes to reset the non-union merit level to 3 percent to be consistent with the union workforce adjustment level of 3 percent. Accordingly, he proposes that labor costs should be reduced by $658,993, or $281,711 for the Utah jurisdiction.

Q. What reasons does Mr. Schultz give for his proposed adjustment?

A. Mr. Schultz contends that both the Company's base pay is inadequately researched and excessive and that its merit increase percentage is above market.

Q. Do you agree with Mr. Schultz?

A. No. He is wrong on both counts.

Q. Please comment on Mr. Schultz's arguments regarding the Company's base pay.

A. Mr. Schultz bases his opinion about the Company's base pay on his review of some of the third party surveys provided by the Company. As he references in his testimony, Mr. Schultz visited Company offices to review the third party surveys mentioned in response to CCS 9.10 (in which the Company indicated that it reviews a wide range of third party salary studies in setting its base and incentive compensation). During that visit and upon request, the Company made available to Mr. Schultz all of the surveys available in hard copy to which the Company subscribes—a total of approximately 30. Mr. Schultz did not ask any questions about the surveys but simply selected a subset of them to review. Based on this review, Mr. Schultz concludes that (1) the Company did not perform sufficient research to support its base pay; and (2) the Company's base pay rates are excessive.

Q. What is your response to Mr. Schultz's contention that the Company did not perform sufficient research to support its base pay?

A. I find this contention particularly weak. In his testimony Mr. Schultz contends that, apparently based upon his visual observation, the surveys he reviewed "showed little or no appearance of significant use." From this Mr. Schultz concludes that the Commission should reject the Company's testimony that it does in fact rely on various third party studies in setting employee compensation. This position should be rejected out of hand. As I mentioned above, the Company keeps a significant number of surveys in hard copy form, and it made all of these available to Mr. Schultz. It is possible that a few of the volumes he inspected had in fact not been referred to heavily or at all. This may have been because the study was reviewed by the Company in electronic form through its new on-line tool, Market_Pay.com, or that Mr. Schultz happened to select a survey that had not been referred to at all at that stage.

The fact is that the Company does make very heavy use of various compensation surveys to which it subscribes, and does so in an attempt to ensure that its salaries are competitive with those of other similarly situated utilities. The Company relies most heavily on compensation surveys by Mercer, Hewitt and Towers Perrin. In addition to the hard copy sources, we recently subscribed to Market_Pay.com which allows us access to the survey data and allows us to actually perform survey comparisons and studies on line.

Q. Mr. Schultz maintains that he asked the Company whether the hard copy surveys were available in another form and that the Company indicated that they were not. Is that true?

A. I was the Company representative interacting with Mr. Schultz on the day of the visit and I do not recall him asking that question. That said, it is possible that he did and that I interpreted him as asking whether he might have access to the electronic version of a particular survey. If so, I quite easily could have answered "no." This is true because our agreement with Market_Pay.com prohibits us from allowing access to anyone outside the Company without prior permission.

Q. Did Mr. Schultz make any other arguments intended to support his view that the Company had not sufficiently researched its base pay?

A. Yes. Mr. Schultz also attempted to map job titles from the job master list that was provided in response to CCS 4.9 to twenty different positions that were listed in response to CCS 9.18. When Mr. Schultz discovered that many of the jobs on the master list were not actually filled, he questioned whether the Company was properly evaluating its positions. This concern suggests that Mr. Schultz has misinterpreted the purpose of the master job list. That list contains every position that has been filled at the Company at any time over the past two years. At any one point in time many of the positions listed will not be filled. The Company has a number of positions that have been established in response to a particular business need. As business needs change, the Company may decide not to fill certain positions. Nevertheless, the Company will maintain listings on the master list in the event it wishes to fill the job again in the future. The fact that a position that is empty is still on the master list does not suggest that the Company has failed to update or evaluate its compensation.

Q. What is your response to Mr. Schultz's contention that the Company's base pay is excessive?

A. Mr. Schultz bases his opinion on a number of "evaluations" he performed, comparing Company documents with some unspecified number of the studies he reviewed. None are persuasive.

First, from a list provided by the Company, Mr. Schultz identified fourteen Company positions that he determined were comparable to those described in the surveys. Based on a comparison, Mr. Schultz found that the Company compensation for nine of the 14 positions was above average. This evaluation is particularly unconvincing given that Mr. Schultz did not have job descriptions for any of the Company positions. He was comparing job titles only and therefore would have had no way of knowing if the Company positions were comparable to the jobs described in the survey. In fact, it is very common to discover that a particular job title might be applied to positions with different job duties at different organizations.. Similarly, two comparable jobs may have different titles.

In order to illustrate this point I have attached to my testimony Exhibit RMP ___(EDW-2R-RR) which consists of two documents. The first is the Company job description for a Quality Assurance Supervisor. You can see from the description that this position is entitled "Supervisor" -- which is generally a lower grade than "Manager" but a higher grade than "Lead." In order to study the appropriate pay for this position we provided the actual job description as well as the title to one of our consultants, who then came up with comparable positions. The second document shows the results of our consultant's research. As you can see, based on an analysis of the actual job descriptions, the "comparables" identified not only had different titles, but one was entitled "Manager" and another was entitled "Lead"—in contrast to our Company position which is classified as "Supervisor." These types of mismatches in job title vs. description are very common. The bottom line is that Mr. Schultz could not have completed a reliable evaluation of the Company's compensation for particular positions based on title alone.

Second, Mr. Schultz compared the salaries of a sample of job codes in response to Data Request CCS.9.18 to the Company's master job listing. Mr. Schultz states that his experience is that the ranges used within the Company's salary structure are much broader than he is accustomed to seeing. This is purely a subjective view. Salary structures/ranges vary based on the number of grades within the structure, number and types of jobs levels, etc. The ranges used in the Company's structure provide management the ability to pay for performance and support growth/promotional opportunities. The key point in a structure is the midpoint and the respective compensation received around that midpoint. At any rate, Mr. Schultz' observation in this point says nothing about the overall level of the Company's salaries.

Q. Do you agree with Mr. Schultz that the Company should set its merit increases for non-union employees at the same level as that of union employees?

A. No. The markets for union and non-union employees are completely different and we arrive at market compensation in completely different ways. Market compensation for union employees is arrived at through collective bargaining. It should be recognized that collective bargaining concerns not only wages, but also terms and conditions of work. Market compensation, including merit increases for non-union employees, is arrived at through market research, which is precisely the way we arrive at our non-union merit increases. If we were to insist at holding raises for non-union employees at the same level as that of union employees, we would run the risk of not appropriately or accurately reflecting market and competitive positioning.

Q. Do you agree with Mr. Schultz's contention that the Company's merit increase percentage of 3.5 percent for non-union employees is above market?

A. No. The attached Exhibit RMP___(EDW-3R-RR) shows the results of the research on which the Company based its decision to provide an average 3.5 percent merit increase for non-union employees. This research shows that among comparable utilities and various Portland and Salt Lake City companies, our 3.5 percent increase is actually conservative.

Proposed Adjustments to Annual Incentive Plan

Q. Please describe the Company's Annual Incentive Plan program that was in place during the test period.

A. In order to attract, motivate, develop and retain a highly qualified workforce, the Company's philosophy is to provide total remuneration which, when employees' performance is at desired levels, is equal to the average remuneration provided by our competitors for labor. Employees will earn less than the average remuneration when performance is less than desired and, conversely, will earn slightly higher than the average remuneration when performance is better than desired levels. The

Company's objective is to generally provide the same components in our total remuneration package as are included in the packages provided by our competitors for labor.

The intent of the Company's annual incentive program is to put some of the competitive total remuneration "at risk." The portion of pay "at risk" is the guideline (or target) incentive percentage assigned to a particular job. In exceptional performance years, the incentive may be more than target and in low performance years may be below target, but on average, the incentive is generally at the guideline level. If the individual fails to earn the full guideline incentive, that individual will be paid less than the competitive total cash compensation in the marketplace for that year.

<u>Division of Public Utilities</u>

Q. Please describe Mr. Garrett's proposed adjustments to PacifiCorp's Annual Incentive Plan.

A. Mr. Garrett proposes to remove from budgeted expense all incentive pay for exempt employees. Accordingly, he is recommending the revenue requirement be reduced by $22,745,049 on a Company-wide basis, or $9,992,677 on a Utah jurisdiction basis.

Q. What reasons does Mr. Garrett offer for his recommendation?

A. Mr. Garrett contends that the Company offered insufficient evidence showing how the program goals relate to operational measures that benefit customers, and in fact he argues that the program's incentive awards are more likely tied to financial rather than customer-related goals.

Q. Do you agree with his proposed adjustment to incentive pay expense?

A. No, for two reasons. First, from an overall standpoint, reducing incentive costs will result in employees being underpaid. As I explained in my opening testimony, incentive pay is not “extra pay.” Rather, incentive pay is an integral portion of a competitive level of pay. Over the past few years, there has been a significant shift by companies to deliver compensation in the form of both base pay and incentive. In addition to this market-based shift in compensation philosophy, much of the emphasis on measuring employee performance is now linked to safety, reliability, and customer service. Any reduction beyond the competitive target incentive level would place the Company in a position of not being able to offer competitive pay levels and placing operational and customer objectives at risk.

Second, Mr. Garrett is wrong in his assessment of the goals and objectives of the plan which are most definitely tied to benchmarks that benefit customers. The plan description referenced by Mr. Garrett in his testimony is attached as Exhibit RMP___(EDW-4R-RR). The plan description quite clearly states that performance will be based on measurable achievements of results based on meeting objectives established in operating and business plans and the organization’s success in responding to unexpected events. In my opening testimony I discussed the 2007 plan year goals for RMP President Walje which shows the very concrete and measurable goals set for Mr. Walje. All of these goals relate to the successful and efficient operation of the Company, and all benefit customers. As I said, at the end of the year, senior management will review these very concrete and measurable goals and determine whether they have been met.

Attached is Exhibit RMP___(EDW-5R-RR) which contains copies of 2007 objectives for six actual employees classified from analyst to manager level. (The group includes a Dispatch Supervisor, Manager of Engineering and Environmental Services, Regulatory Analyst, Engineer, Metering Administrator, and Finance/Accounting Analyst. The names have been redacted to protect employee privacy.) As you can see each employee has between one and five key objectives that serve as goals for the year. Each objective is described in detail. Next, each objective is assigned a set of concrete goals by which they will be measured and a weighting for that particular objective. All of the employees' goals focus on objective outcomes that are very closely tied to safety, reliability and customer service. None of them are tied to financial outcomes. Moreover, each goal sheet reflects the significant attention and effort that goes into tailoring these for each employee.

Q. Mr. Garrett argues that in order for the costs of the incentive plan to be recoverable each of the various objectives must be given a weighting and a formula so that the incentive value of each objective can be calculated. Do you agree?

A. No, I do not. PacifiCorp has found that, as long as goals are specific, concrete and measurable, allowing for some management discretion in making awards creates a more powerful motivator for superior performance. As the Commission may be aware, our previous incentive pay program *did* apply a formulaic approach to determining the award and amount of incentive pay. Once an employee met a certain objective, the employee was assured of a certain payment. While this approach was easy to administer, we determined that it engendered a certain complacency that tended to discourage rather than encourage truly superior performance. Once a particular objective was met for the year, the old system left the employee with little incentive to try to do even better. Under the current system, managers have a finite number of dollars that they can use to reward the employees under their supervision. So, if all employees meet their targets, the manager is free to provide even greater awards to those who go beyond their targets. The current system also allows managers to reward an employee who performed in a superior fashion, but who may not have achieved his or her objectives due to circumstances beyond his or her control. Thus, we believe that the current program forces employees and managers to actively and flexibly adjust to business demands and current circumstances. We believe this plan results in a more effective work force.

Q. Mr. Garrett argues that his company's survey of various states' treatment of incentive plan costs suggests that the Company's incentive plan costs should not be allowed. Do you agree?

A. No. First, let me address Mr. Garrett's summary of the law in Utah. Mr. Garrett correctly states that the Commission allows only those portions of incentive pay into rates that are based on operational goals that provide customer benefits. However, later in his testimony he critiques the Company for not showing that incentive compensation is tied "solely to the achievement of specific quantifiable customer specific goals." The Commission does not require such a showing. On the contrary, the Commission has found that incentive compensation tied to financial goals may be recoverable if the Company can show that the financial goals also benefit customers.

The Commission’s policies on incentive pay are less narrow than Mr. Garrett suggests. At any rate, none of the incentive pay for which the Company seeks recovery is tied to financial goals. As I have testified, and as the attached Goal Sheets demonstrate, all goals are operational in nature. As such, the results of Mr. Garrett’s survey would suggest that the Company’s incentive plan would be recoverable in most states, which do, as he says tend to exclude costs associated incentives specifically tied to financial performance.

Q. Does the Company maintain any incentive pay programs that are tied to financial metrics?

A. Yes. The Company does offer a long term incentive program to select senior management levels. This plan is based on MidAmerican net income improvement and is vested over a five year cycle. We are not asking for recovery of costs associated with this program.

Committee of Consumer Services

Q. Please describe Mr. Schultz’s proposed adjustments to PacifiCorp’s Annual Incentive Plan.

A. Mr. Schultz proposes reducing the incentive level in the filing to a total of 10 percent of payroll for exempt and non-exempt employees, which results in an expense reduction of $7,632,048, or $3,366,123 in the Utah jurisdiction.

Q. What reasons does Mr. Schultz give for his adjustment?

A. Mr. Schultz argues that the Company’s target goals are “questionable” and the target percentage for employees is excessive.

Q. Do you agree with his proposed adjustment to incentive costs?

A. No.

Q. Please respond to Mr. Schultz' criticism of the plan goals.

A. Mr. Schultz criticizes the plan goals on a number of points—none of them valid. First, Mr. Schultz contradicts my statement that incentive pay is "at risk" by pointing out that the budgeted target pay is paid out each year. There is, however, no inconsistency. Each year the Company determines the overall amount of incentive pay that it expects to pay out across all employees. The Company expects that some employees will fail to reach their goals while others will meet and even exceed their goals. This plan is designed so that incentive pay is at risk at the individual level, so that no employee can expect to earn their incentive pay without performing well with respect to his or her goals.

Mr. Schultz also claims that the goals are not sufficiently challenging and therefore are invalid. In support of this opinion Mr. Schultz points out the fact one customer service goal (customer satisfaction with telephone service) has been repeatedly met by the Company and has not been made more demanding. Conversely, Mr. Schultz argues that a certain customer complaint goal must not be working because the goal was *not* met. However, in neither case does he argue that the target levels fail to reflect a standard of excellence or that the Company's operations are not improving overall. Quite to the contrary, as discussed above, over the past year the Company has achieved significant improvements in customer service and operational efficiency.

Finally, Mr. Schultz asserts the target pay levels are excessive but provides no support for his contention. In fact the Company target levels are set based on market review and set at levels that are at the market average as set forth in the third party salary surveys in which the Company participates. Of course there are companies that provide higher and lower levels and only looking at the lower levels is not a prudent approach to take. Mr. Schultz also notes that the Company paid above target in 2007. This is not accurate. Mr. Schultz is combining expense of the annual incentive plan with employee recognition awards for safety and spot performance. In fact, the Company paid the targeted amount in 2007

Proposed Adjustment to Medical Health Care Benefits

<u>Division of Public Utilities</u>

Q. Please describe Mr. Garrett's proposed adjustment to PacifiCorp's health care benefits.

A. Mr. Garrett proposes adjusting the health care benefits expense to reflect a 5.06 percent increase rate, instead of the 9.8 percent utilized by the Company. Accordingly, Mr. Garrett recommends a reduction to operating expenses of $2,302,071, or $984,164 at the Utah jurisdictional level.

Q. Do you agree with Mr. Garrett's testimony that PacifiCorp's health care benefits should be adjusted?

A. No. Mr. Garrett bases his view on the Towers Perrin Study which indicates a trend rate of 6 percent and 5 percent for high performing companies. I have reviewed that Study and have concluded that it is not particularly helpful in forecasting health care costs for the Company. Pages 25-28 of the survey list the companies that participated. Out of several pages of companies, I have found only two comparably sized electric utilities. Moreover, the Towers Perrin Study is geographically based, while the Company seeks its talent from a nationwide pool. Finally, the survey does not address the demographic challenges our industry faces. In particular, our industry, more so than most, is faced with a higher average percentage of its work force being within 10 years of retirement age. This aging workforce has significant impact on cost and experience of claims.

On the other hand, the trending factor used by the Company was developed by Hewitt and Associates based on information that is specifically tailored for and drawn from the Company's own experience. In particular, during each year, the Company provides Hewitt with demographic information about the Company's employees, claims experience and market conditions. Hewitt takes all of this information and, in combination with its own data, forecasts the Company's expected expense. This results in a significantly more accurate forecast.

Committee of Consumer Services

Q. Please describe Mr. Schultz's proposed adjustment to PacifiCorp's health care benefits.

A. Mr. Schultz proposes reducing the medical expense by taking the 2007 actual health care benefit cost and applying the 9.8 percent trending rate selected by the Company. Mr. Schultz' proposal would result in a reduction to Company expense of $5,621,838, or $2,403,260 for the Utah jurisdiction.

Q. Do you agree with Mr. Schultz's testimony that PacifiCorp's health care benefits should be adjusted?

A. No. Medical costs in the case are based on our forecast for the calendar year 2008. Mr. Schultz is basing his adjustment on the difference in our original forecast and actual results for the calendar year 2007. The 2007 numbers were never used in this case. This case was prepared after we had more information. If we want to evaluate our forecast in this case, we need to compare it to 2008 actuals. January through March 2008 actual for medical expense totaled $13,283,744. If we annualize this by multiplying by four we get $53,134,976. This is higher than our forecast for calendar year 2008 used in this case by over $2 million.

Proposed Adjustment to Pension Expenses

<u>Committee of Consumer Services</u>

Q. Please describe Mr. Schultz's proposed adjustment to PacifiCorp's pension expense.

A. Mr. Schultz proposes an adjustment to the Company's administrative cost for the pension plan in the amount of $299,214, or $127,910 for the Utah jurisdiction.

Q. What is the reason for Mr. Schultz's proposed adjustment?

A. Mr. Schultz believes that a portion of the expense reflected in the current filing is tied to the pension changes made in 2007 and therefore those should be disallowed as the changes have already taken place

Q. Do you agree with Mr. Schultz's testimony that PacifiCorp's pension expense should be adjusted?

A. No. Mr. Schultz's reasoning for proposing this adjustment is flawed. Mr. Schultz attempts to tie the 2008 expense increase to the plan design changes made in 2007. This is not accurate. The pension administration increase is related to three factors. First, the recently enacted Pension Protection Act mandated certain administrative changes to the Company plan, the implementation of which will result in administrative costs. Second, as part of the Company's continued effort to improve its benefit programs, the Company will be offering a choice to those employees currently in the cash balance plan. Specifically, these employees will be allowed to choose either to stay in the cash balance formula plan or move entirely into the defined contribution (401k) plan. While this change will reduce pension expense in the long run, it does involve certain initial administrative costs. Third, we are anticipating that significant union negotiations in 2008 will be necessary to address the changes to our medical and retirement plan offerings. Again, these changes should reduce expense and volatility, but cannot be achieved without some up front administrative costs.

Other Salary and Overhead

Committee of Consumer Services

Q. Mr. Schultz proposes an adjustment to what he categorizes as "other salary overhead." His adjustment is for a reduction of $357,249 on a total company basis and $152,719 on a Utah basis and is based on viewing historical cost structures. Do you agree with this adjustment?

A. No. The 2008 budget increase in this accounting category is based on a number of factors. First, the Company recently implemented a random drug and alcohol policy whereby a defined percentage of the population will be tested at random on an annual basis. This program has been initiated to improve overall safety of our employees, the business, and the customers we serve and interact with. Second, with our aging workforce, and again with a focus on safety and productivity, the Company is working more closely to evaluate and determine the “fitness-for-duty” of our workforce. As a result, our fitness-for-duty examinations have become more detailed and thus more costly. Third, we have made a change to our annual benefits open enrollment program. With the diversity in plan design throughout our unions (appreciating work is underway to align where the opportunity presents itself), the open enrollment process continues to increase in complexity and importance. Better processing through this effort improves overall selection and utilization of plan designs per employee that correspond into better benefit experience and associated cost/expense. Again, all of these programs are expected to decrease costs overall, but they do involve some specific expense increases

Proposed Adjustment to Relocation Expenses

Committee of Consumer Services

Q. Please describe Mr. Schultz's proposed adjustment to PacifiCorp's relocation expense.

A. Mr. Schultz proposes that the relocations costs included in the case be reduced by $472,753, or $218,519 on a Utah jurisdictional basis.

Q. What reason does Mr. Schultz give for his adjustment?

A. The Company used the relocation costs incurred in the Base Year. Mr. Schultz points out that these are higher than those incurred in the recent past and proposes instead that the Company calculate relocation costs using a five-year historical average.

Q. Do you agree with Mr. Schultz's testimony that PacifiCorp's relocation expense should be adjusted?

A. No. Relocation is a program that is driven by many factors and using historical averages is not a prudent indicator of future expense. In order to attract and maintain a skilled workforce, the Company's relocation program must be competitive with the relocation programs of the companies with whom we are competing for employees. Thus, to ensure that our relocation program is competitive, we have it reviewed annually and administered by a third-party organization that specializes in administration and plan design.

The Company accepts that the costs of this program have increased. This is a by product of a number of challenges facing the Company, including 1) changes in the economy; 2) housing and other local market issues; and 3) a shortage of employees with required skill sets. In fact, the downturn in the housing market has had a very significant role in increasing the costs of relocating employees. Unfortunately, these are factors that the Company cannot control but must respond to—regardless of historic costs.

Finally, I should note that given all of the cost increases relevant to relocation programs, PacifiCorp has made substantial changes to its relocation program in an effort to control costs. These include reducing a number of benefits such as food allowances, rental storage, transportation and others. However, we do not believe it prudent to reduce these benefits further. For these reasons Mr. Schultz's relocation adjustment should be rejected.

Proposed Productivity Adjustment

<u>Division of Public Utilities</u>

Q. Please describe Mr. Garrett's proposed productivity adjustment.

A. Mr. Garrett argues that labor costs should be reduced by $2,404,135 on a Utah jurisdictional basis to account for an assumed increase in productivity of 1 percent.

Mr. Garrett cites as support for this adjustment a Bureau of Labor Statistics ("BLS") study which indicates significant growth in labor productivity over the past few years.

Q. Do you agree with Mr. Garrett's productivity adjustment?

A. No. Mr. Garrett's proposal to reduce labor costs by the BLS index is an arbitrary adjustment that has no relevance to the projection of Rocky Mountain Power's cost in this case. More importantly, the Company has already built increased productivity into its cost structure. In particular, the Company's proposed labor costs reflect significant decreases in personnel through the CIC severance adjustment and the Automated Meter Reader adjustment. Moreover, the Company's proposed labor cost assumes no increased manpower except for new plants brought online, even as the Company is experiencing huge load growth. In this manner, the Company has built in the productivity factor. Thus, Mr. Garrett's proposed application of an additional 1 percent productivity factor would far overstate any increases in productivity beyond what reasonably could be expected.

Proposed Adjustment to Overtime

Committee of Consumer Services

Q. What is Mr. Schultz's proposed overtime adjustment?

A. Mr. Schultz proposes that the Company's overtime expense be reduced by $4,536,499 on a total company basis and $1,939,292 on a Utah jurisdictional basis.

Q. What reason does Mr. Schultz provide for his adjustment?

A. Mr. Schultz appears to be taking the position that overtime expenses should be held constant at the 2003-2005 level, allowing for 3 percent inflation.

Q. Do you agree with this approach?

A. No, I do not. As I discussed above, under its new owners, the Company has taken a number of steps to become more efficient and cost effective—including a restructuring plan that includes some significant staff reductions. These staff reductions will result in significant savings overall. There is always a need for employees to work overtime—in particular to restore services and ensure safety. With leaner staffing levels, we do project the need for more overtime than we have experienced in the past. However, as I said, overall the Company will experience significant savings.

Q. Does this conclude your rebuttal testimony?

A. Yes.