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

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

Qualifications

Q. Briefly describe your education and business experience.

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

Q. Briefly describe your current duties.

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

Purpose of Testimony

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide an overview of the compensation and benefit plans provided to employees at the Company and support the costs related to these areas included in the test period. This overview is focused on our base pay, annual incentive, severance, pension and healthcare benefit plans. These plans are designed to enable the Company to attract and retain the employee talent to deliver operational and service value to the customers we serve. In addition, the Company's programs help provide a highly effective workforce at a reasonable cost and demonstrate that the company is a prudent and well-managed company.

Background

Q. As background, please briefly describe the company's compensation and benefits philosophy.

A. The philosophy of the Company and its parent MidAmerican Energy Holdings Company is to provide a total compensation and benefits package which enables an employee to receive compensation and benefits comparable to the average provided by competitors for labor when an employee performs at an acceptable level. Employees will earn less than the average remuneration when performance is less than acceptable and, conversely, will earn higher than the average remuneration when performance is exceptional. The Company's objective is to generally provide the same components in its total remuneration package as are included in the packages provided by its competitors for labor. This allows the

Company to attract and retain the quality of employee necessary to provide the high level of service demanded by and owed to our customers, without incurring excessive or unreasonable labor costs.

When reviewing any expenses associated with any single portion of this compensation package, it is essential to recognize that each portion is part of an integrated total package. The total compensation package must be viewed as a whole.

Q. What is the total labor costs included in this case?

A. As supported by the information in Mr. Steven R. McDougal's testimony and exhibits, total labor costs included in this case are approximately $509 million, exclusive of any severance related costs. This amount includes labor, incentive compensation, and pension and benefits costs.

Q. How does this compare to the labor costs included in the last case?

A. Total labor costs have decreased from the level included in the last case, which were $530 million.

Base Compensation

Q. How does the Company determine the base compensation portion of the total compensation and benefits package for each position?

A. At least annually, the Company collects market data for comparable jobs and calculates the average data point for total cash compensation. We then separate the total cash compensation portion into two elements: 1] the first element is base salary, and 2] the second element is an "at risk" or incentive element. In evaluating the compensation portion of the total compensation and benefits package, these two elements must be considered together; if either portion is eliminated, an employee would not be compensated at a market level**.** This approach reinforces the Company's strategies and objectives while also providing flexibility and a prudent response to changes in business conditions.

Incentive Compensation

Q. Please describe the incentive element of the compensation portion of the Company's compensation and benefits package as it exists in the test period.

A. The intent of the incentive element is to put some of the competitive total compensation "at risk." If an employee performs at an acceptable level for the position, the incentive amount (referred to as the target incentive) will allow the employee to earn compensation comparable to other similar positions in the market. If an employee fails to perform at an acceptable level, the employee will receive less than the target incentive or no incentive at all. When this situation occurs, the employee will be paid less than the comparable total cash compensation in the marketplace for that year. Conversely, for exceptional performance, an employee may receive above his or her target incentive level.

Q. What are the objectives of the incentive element of the compensation portion of the total package?

A. The incentive element of the compensation package provides the employee with an incentive to exceed performance beyond the average. This opportunity is an essential counterbalance to the risk the employee faces that performance in a particular year will be less than acceptable, with the consequence that total compensation will be less than market in that year. The symmetry of the incentive element provides the Company with the financial tool to encourage exceptional performance and discourage less than acceptable performance. As would be expected from a well-designed, symmetrical plan, the average incentive element is approximately at the target incentive level.

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

A. Yes. In the Company's experience, and as I discuss further below, a higher level of overall employee performance is achieved when a portion of pay is "at risk." Therefore, while the total cost of the Company's base plus incentive compensation program is still based on average total cash compensation, just as a salary-only program would be, the benefit to customers is greater. In addition, the Company's incentive compensation plan enables the Company to attract and retain talented employees in the increasingly competitive market for skilled labor.

Q. How is the incentive compensation plan structured?

A. Each employee has a target incentive level, as set by competitive market data. The Company's Annual Incentive Plan provides performance awards based on the following: 1] achieving individual and group goals including safety goals; 2] individual performance; and 3] success in addressing new issues and opportunities that may arise during the course of the year. Note that all employees are expected to operate within their respective budgets, but corporate financial performance and returns are not a factor in determining the compensation amount. This approach supports the philosophy of incentive compensation as pay at risk that is earned based on individual performance. But, there is one important exception to the focus on individual performance; failure of a group or business unit to meet its safety goal will impact the compensation amount even if the individual achieves his or her personal safety goal.

As described previously, the incentive plan is structured to deliver a target incentive level for achieving performance objectives, and this target level maintains the positions' competitiveness within the market place. Awards received above these stated target levels are for exceptional performance, as previously described.

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

A. This application includes a request for total Company incentive compensation based on a July 1, 2008 to June 30, 2009 test period in the amount of $28.9 million. This is the total budgeted incentive compensation payout at the target incentive level for each employee participating in the incentive plan. This amount is less than the $33.5 included in the last rate case filing for incentive compensation.

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

A. As the Company's pay philosophy is to provide competitive total compensation, it is expected that the target incentive level, as set by the competitive market, will be achieved on a year-after-year basis and therefore paid at that level. The previous incentive design enabled incentive compensation payouts to range from zero to two times target for all employees. The current design still enables upside opportunity on an employee basis; however, the overall Company payout will be at the targeted incentive level

Q. Can you be more specific about the benefits to customers of incentive compensation for employees?

A. Customers benefit from having exceptional individuals leading, managing and operating the organization who are motivated to achieve challenging goals that are directly tied to safety, reliability and customer satisfaction – all of which are customer benefits. Each year, the same goals used to manage the Company are used to evaluate and reward employee performance. The best example of this is illustrated in Exhibit RMP___(EDW-1), which establishes the individual goals of Rocky Mountain Power's President, Mr. A. Richard Walje. These goals are used not only for Mr. Walje personally, but they also represent the goals of the entire Rocky Mountain Power business unit, which includes all of the power distribution activities. Each Rocky Mountain Power employee then establishes individual goals that directly reflect Rich's goals for the business unit.

The focus of Mr. Walje's goals, which you would find is similar in approach to the goals of our other senior officers, is to improve all aspects of our business and services provided to our customers and employees. Goal 2 for 2007 is focused on safety and reducing lost time, recordable, preventable and restricted duty incidents. Goal 3 addresses environmental areas of improvement, reduction of preventable environmental incidents, correction of any and all potential noncompliance findings, and meeting all agency requirements, among others. Goal 4 focuses directly on customer/stakeholder satisfaction, implementing local and regional customer service improvements, improving visibility and relations with industrial customers and consumer associations, and improving overall customer satisfaction. Goal 5 relates to operating within established budgets, including maintaining operating costs, controlling the cost of capital expenditures, and achieving operational efficiencies/financial targets that allow the Company to remain a low-cost utility. Other key goals relate to operational performance (goal 6), major project delivery (goal 7), organizational planning and development (goal 8), and quality of service and regulatory commitments (goal 9).

The Company's business strategy relies heavily on the annual development and achievement of these goals by all employees. Aligning employees' success in achieving these goals with a significant portion of their compensation is an obvious performance incentive that ultimately benefits customers.

Q. Does the Company believe any of these compensation expenses should be disallowed or paid by shareholders?

A. No, all prudently incurred costs should be included in the revenue requirement. Customers should fully support the expected cost of incentive compensation because, as I previously mentioned, it is an essential component of an overall market-based competitive compensation program designed to provide the highest level of employee performance at a prudent cost. Reducing customer support for incentive compensation would send the message that employees should be expected to provide safe, adequate and reliable service for below-market pay. The incentive compensation amount included in this case is based on providing competitive market levels of incentive compensation. These levels enable the

Company to attract and retain the talent needed to provide safe and reliable service to its customers. In addition, incentive compensation expense included in the test year is based on target payout for the year. It is possible that the actual payout would exceed the target in a given year, a difference the Company would not recover through rates.

I would also note that this plan represents the component of the compensation package that emphasizes safety, reliability and customer satisfaction and is applicable to all non-represented employees. As I mentioned, achievement of a level of corporate earnings is not part of this plan. There is an additional incentive plan for selected officers and key personnel that does have achievement of corporate financial performance as one of its critical elements. We are not seeking to recover any of the costs of that plan from customers. Thus, shareholders are bearing a share of the total payroll expense.

Retirement Plans

Q. Please describe the changes to the Company pension plan that took effect on June 1, 2007.

A. The Company regularly reviews its compensation and benefit plans. Rising and volatile pension costs and recent changes to applicable laws and regulations led the Company to implement changes to its pension plan that will create a more stable, predictable cost structure.

The pension benefit plan that is currently included in Utah rates is a traditional defined-benefit plan, delivered in value based on a final average pay formula. This approach can cause both short- and long-term volatility of cost and cash funding. To mitigate these risks, the Company has shifted its benefit determination approach, effective June 1, 2007, to a more stable benefit for the non-union workforce. Going forward, the pension benefit will be delivered through a cash balance plan approach. All vested benefits under the current final average pay approach were frozen as of May 31, 2007 and will be provided to employees at the time of retirement. Effective June 1, 2007, the Company established an account for each employee that will grow based on credits of 6.5 percent of annual pay (base plus incentive) plus 4.0 percent of pay in excess of the Social Security taxable wage base ($97,500 in 2007). In addition, on an annual basis each account will receive an interest credit based on the account balance and the annual credit rate.

A transition benefit was provided for employees who are age 40 or older on May 31, 2007. Employees falling in this category will receive additional pay credits for five years (ending in 2012), structured as follows:

Year 1-3 = 4.0 percent

Year 4 = 2.5 percent

Year 5 = 1.5 percent

All new hires eligible to participate in the pension plan after June 30, 2006 will receive a pay credit rate of 5.0 percent and no transition pay credits.

The cash balance plan approach spreads pension accrual throughout an employee’s career and is much simpler conceptually than a traditional defined-benefit approach (final average pay formula), providing employees more transparency and the Company (as well as the Commission and customers) more predictability. Another key benefit to employees of this approach is its portability and ability to roll over into another retirement account.

The Company is also adjusting its matching and fixed contributions to participant's 401(k) retirement plan. Effective June 1, 2007, the Company will match 65 percent of employee contributions for the first 6 percent of employee pay (change from 50 percent of employee contributions), plus a 1 percent of pay discretionary profit-sharing match determined annually. These changes will reduce the maximum employer contribution to the 401(k) plan from 5 percent to 4.9 percent of an employee's pay.

Q. Is the Company making changes to the pension plan to reduce its overall expense?

A. The pension plan changes will result in savings that will ultimately benefit customers. However, the main reason the Company has decided to shift its pension benefit program is to remain competitive with other energy service providers and to reflect recent legislation passed under the Pension Protection Act of 2006. This change reflects a broader shift in large organizations across the country to cash-balance plans, as many other businesses see the benefit of a more predictable method of funding employee retirement benefits. Based on studies by Hewitt Associates, Exhibit RMP___(EDW-2), 71 percent of companies (all industries) had traditional defined benefit pension plans in 2000. By 2006, that number had shifted to 53 percent. Those having a cash balance plan moved from 18 percent to 34 percent during the same time period. The same study focusing in on the Utility sector shows a shift from 79 percent to 51 percent for traditional defined benefit pension plans and an increase from 19 percent to 35 percent for cash balance plans. This trend has been reinforced to us by many of our larger business customers, who wrestle with the same issues associated with providing retirement benefits and have questioned how we would continue to manage the financial uncertainties associated with a defined-benefit plan (final average pay formula).

Q. How much does the Company expect to save by changing to a cash-balance pension plan?

A. For the purposes of the Company's revenue requirement included in this application, we have forecast a pension expense of $27.1m for the test period. In contrast, our 2007 budgeted expense under the previous pension determination approach (final average pay), was $56.6m. Therefore, the test year estimated annual reduction in expense is $29.5m.

Employee Health Benefits

Q. Please describe the changes to the Company's health care benefits program.

A. The Company periodically reviews and adjusts the sharing of healthcare-related costs with employees in an effort to stabilize cost, manage volatility, and respond to changing market practices. Exhibit RMP___(EDW-3) provides market data compiled by Hewitt Associates outlining competitive healthcare sharing structures. Beginning in 2008, the Company is making adjustments to the cost sharing and plan design to continue to align with market practices. The Company will be establishing a base medical plan that will be a high deductible plan with a cost sharing of 90/10. The Company will continue to offer choice into other plans, however, these plans will be set at a cost sharing of 74/26 except for a $300 deductible plan that will be offered in its rural areas. All new hires as of January 1, 2008 will have the option of selecting the high deductible plan or opting out of coverage.

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

A. This structural shift adheres to the Company's goal of providing competitive benefits to its employees, while doing so in a fair and prudent fashion.

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

A. There has been a significant upward trend in healthcare costs in recent years. For fiscal year 2005 and calendar years 2006 and 2007, budgeted healthcare expenses totaled $41.5 million, $49.9 million and $60.8 million, respectively. Consistent with this trend, the Company has included in this application healthcare expenses of $55.5 million as shown on Page 4.10.2 of Mr. Steven McDougal's Exhibit RMP___(SRM-1).

Hewitt Associates has informed the Company that current trends indicate the rates for the Company's plans are anticipated to increase further in 2008 by between 8 and 12 percent. The shifts in structure previously described pass more of the increasing expense on to employees rather than customers and, again, is done for the purpose of providing competitive retail electric service to our customers.

Employee Severance

Q. Has the Company included MEHC severance costs in this case?

A. Yes. As discussed by Mr. McDougal in direct testimony, this case includes MEHC severance costs as requested by the Company in Docket 07-035-04. That docket is currently pending before the Commission. Assuming the Commission grants the application for deferred accounting treatment of the MEHC severance costs, the following section of my testimony is in support of recovery of those costs in customer rates.

Q. Please describe how the Company's severance plan operated prior to May 24, 2007 and why it is offered to its employees.

A. The Company has an overall compensation philosophy of providing and designing compensation that is aligned with the competitive market average in order to attract, retain and motivate skilled employees needed to deliver safe and reliable service to its customers. The severance programs previously offered were one element of the Company's competitive approach.

Like many large companies, the Company had maintained a severance plan for its broad-based employee population and an enhanced program for its executives. The Company regularly assessed its program against the market by working with M Benefit Solutions (previously named MCG Northwest). Exhibit RMP___(EDW-4) outlines the 2002 study performed by M Benefit Solutions and used by the Company to confirm its severance program design.

Q. How do customers benefit from a severance plan that pays employees who are no longer working for the Company?

A. Severance plans generally are used to provide transition benefits to employees displaced by organizational changes that provide long-term benefits and savings. This is what occurred following PacifiCorp's sale to MidAmerican Energy Holdings Company. The new leadership, based on extensive meetings with customers, stakeholders and regulators, determined that customers would be better served by eliminating a significant number of management and corporate services positions, clarifying accountability and reorganizing the Company into three business units that were more autonomous and responsive to local needs. As part of this reorganization, management identified a number of operating efficiencies, resulting in the need for fewer employees. Additionally, the severance plan provided employees who were identified for displacement with an incentive to continue to work productively and effectively while the transition was occurring. The benefits of continued operation of the Company during the transition, the operational improvements of the restructured Company following the transition, and the savings associated with a leaner, more responsive organization, all accrue to our customers. In light of these benefits, the costs of transition benefits provided by a severance program are prudent, and their recovery in rates is appropriate.

Q. Please explain the level of severance expense the Company has included in this application?

A. The Company's total deferred severance expense is $45.7 million, which reflects employee terminations related to the sale of PacifiCorp to MidAmerican Energy Holdings Company from March 21, 2006 through May 23, 2007. costs incurred. In light of the benefits of the restructuring described above, as well as the typical role of severance benefits as a component of competitive compensation and benefits packages for employees, the Company believes that the expenses of both the executive and broad-based employee severance benefits were prudently incurred and, as a result, should be included in the Utah revenue requirement. To appropriately match these costs with the benefits to customers over a reasonable time period, the Company has proposed a three-year amortization of this expense. Therefore, one third of the $45.7 million cost, or $15.2 million is included in the Company's application as an expense with the unamortized balance included in rate base.

Q. Does the Company expect severance expense in the future and if so, has that been included in this filing?

A. There will be instances where the Company determines severance would be appropriate for an employee on a case by case basis. But the Company has no plan for a severance program at this time including during the test period, and there is no future severance expenses included in this filing.

Q. Please identify the MEHC restructuring severance costs for both executive and non-executive employees.

A. Total MEHC severance cost was $45.7 million. This cost is comprised of the following amounts for the two employee groups:

a. Executive severance = $12.9 million

b. Non-executive severance = $32.9 million

Exhibit RMP___(EDW-5) is a list of all non-executive employees and severance expense. Exhibit RMP___(EDW-6) is a listing and associated severance expense for each employee that received severance under the executive severance plan.

Q. Have you prepared a cost/benefit analysis that supports the Company's proposal to include this cost in the revenue requirement?

A. Yes, the table below is a cost/benefit analysis supporting the inclusion of this expense in the revenue requirement.

Category	Total System	Utah
Total Severance	$45.7	$19.4
Net annual savings	($)40.3	($)17.5

Q. Have any of the MEHC restructured and severed positions been backfilled, resulting in both severance costs and an ongoing replacement salary expense?

A. There are special circumstances where terminations have occurred resulting in severance benefits and the employee's position has been replaced due to the critical nature of the position or the ongoing dynamic nature of the restructuring effort. The attached Exhibit Nos. RMP___(EDW-5) and RMP___(EDW-6) include a column (replaced (yes/no)) that identifies those meeting these criteria.

All other positions have not been replaced, and to help ensure that the remainder of the displaced jobs are not inadvertently backfilled, the human resources department established a governance/approval process for new hires that is handled as follows:

1. All new positions are reviewed by human resources and approved by the president/ business unit lead.
2. Once approved by the president/business unit lead, they are then reviewed by the director of human resources.
3. The director of human resources reviews and final approval is provided by the senior vice president of human resources for MidAmerican Energy Holdings Company.

Q. Is the Company requesting cost recovery for severance costs associated with backfilled positions?

A. No. We are not requesting recovery of severance paid to any employee whose position is backfilled. When severed positions have been backfilled, the related severance costs for replaced positions have been removed from the rate case revenue requirement.

Q. Please explain why the severance costs for executive employees are so much higher than for non-executive employees.

A. There are fundamental differences in the severance plan design and benefit value for executive-level positions versus non-executive-level positions. Executive-level positions obviously are at greater risk of termination in the event of a change in control, and it is a necessary part of their compensation package that these risks be addressed through appropriate severance arrangements. Moreover, executives are likely to need more time than the broad-based employee population to secure a comparable position with another company. As a result, enhanced severance benefits are an important recruitment and retention tool for executive-level employees.

Q. Please explain the severance expenses and arrangements for the executive employees.

A. The executive severance plan provided the following severance benefits in the event a termination occurs as part of a change in control:

1. Two times base pay at time of termination
2. Two times target bonus opportunity
3. Two times annual vehicle allowance
4. Six to twenty four months of healthcare continuation (based on years of service)
5. Outplacement services
6. Additional payment to compensate for any excise tax obligation

Q. A significant portion of the executive severance costs relate to the Company's former president and chief executive officer, Judi Johansen. Please explain the benefit of these costs to customers in light of the fact that the Company now has three business unit presidents.

A. Ms. Johansen's role was largely assumed by Greg Abel, the Company's current CEO. Mr. Abel is not on the Company's payroll, and only the portion of his time spent on Company matters is charged to the Company through the intercompany administrative services agreement. Intercompany charges are subject to annual expense limits (and potential rate credits) and must be supported by detailed time reporting, consistent with MEHC and PacifiCorp commitments made to the

Commission. The three business unit presidents primarily assumed functions that were performed by numerous other Company executives prior to the acquisition by MEHC; those previous positions were eliminated. The restructuring of top-level executives was done to ensure local decisions and control over local issues, to clarify responsibility for budgets, safety, operations and customer satisfaction; and to make the presidents more accessible and accountable to customers, regulators and shareholders. Although the Company now has three business unit presidents instead of one, the overall number of executives is lower. The associated executive severance cost is a one-time expense that should be recovered through rates to reflect the long-term benefit of reduced layers of management.

Q. Does this conclude your direct testimony?

A. Yes.