Q. Please state your name, business address and present position with Rocky Mountain Power (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. Please 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. Please describe your present 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 focuses on our base pay, annual incentive, pension and healthcare benefit plans. These plans are designed to allow the Company to attract and retain the employee talent necessary to deliver safe and reliable service at a reasonable cost.

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 $504 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 Company's 2006 rate case filing (Docket 06-035-21), and less than one million dollars more than those included in the 2007 rate case filing. Moreover, on a cents/kwh basis, wages and benefits have declined by 10 percent since the 2006 filing Thus, even in the face of rising medical costs and negotiated wage increases, our wage and benefits expense is being reduced.

	Docket 06-035-21 September 2007	Docket 08-035-08 June 2009	% Change
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%

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.

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

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

Second, the Company believes that, in order to encourage superior performance, a certain percentage of each employee's market compensation must be "at risk." Accordingly, under the Company's Annual Incentive Plan, each employee has the opportunity to receive total compensation at the market average, so long as the employee performs at an acceptable level. However, 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.

Total Compensation

Q. How does the Company determine the total cash compensation 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 for each position. To do so, we use a variety of compensation studies put out by various experts/organizations, including Hewitt & Associates, Towers Perrin, and Mercer. In addition, the Company recently acquired access to an on-line tool called MarketPay.com. MarketPay.com provides electronic access to all of the compensation studies we have traditionally used and some additional surveys, allowing us to more efficiently perform information searches and job and pay comparisons.

After we determine the appropriate level of total cash compensation for a position, we then determine the portion of that compensation that will constitute the "at-risk" portion –that is, the "target" incentive pay. The Company sets the "at-risk" portion by reviewing market compensation using the various compensation studies described above. The "at-risk" portion is typically in the 10-25 percent range; however, incentive pay for a few employees is set as high as 75 percent. Generally speaking, the higher the position is within the Company, the higher the percentage of target incentive pay. The remaining percentage of total compensation is referred to as "base compensation."

Annual Incentive Plan

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

A. The objective of the Annual Incentive Plan is to provide our employees with incentive to perform at an above average level. This is achieved by putting a percentage of the competitive total compensation "at risk." If an employee performs at an acceptable level for the position, the employee will receive the target incentive amount which will allow the employee to earn compensation comparable to 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.

The ability to earn a higher-than-target incentive payment provides the employee with an incentive to exceed average performance.. This opportunity is an essential counterbalance to the risk the employee faces that his or her 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 compensation?

A. Yes. In the Company's experience, a higher level of overall employee performance is achieved when a portion of pay is "at risk." 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. Therefore, while the total cost of the Company's base plus incentive compensation program is equal to average total cash compensation (just as a salary-only program would be) the benefit to customers is greater.

Q. How is the incentive compensation plan implemented?

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

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

A. Our individual employee goals start with the goals set for the Company as a whole. Each year, the Company President, in conjunction with MEHC, sets the overall goals for the Company. For example, attached as Exhibit RMP___(EDW-1) is a copy of Rich Walje's goals for 2008. As can be seen, all of these goals focus on delivering safe and reliable electricity to our customers and providing excellent customer service. Mr. Walje's goals include safety goals such as reducing lost time, recordable, preventable, and restricted duty incidents. Customer service related goals include implementing local and regional customer service improvements, improving visibility and relations with industrial customers and consumer associations, and improving overall customer satisfaction. Some goals relate 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, major project delivery, organizational planning and development, and quality of service and regulatory commitments. The achievement of each and every one of these goals will serve to benefit our customers.

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

A. These Company-wide goals are used not only to evaluate Mr. Walje's performance, but they also serve as the foundation for the goals set for each individual employee. Thus, when an individual employee sets his or her own individual goals for the year, they are set by reference to how that employee's position can advance the overall goals of the Company. Examples of individual goals for Rocky Mountain Power for 2008 are attached as Exhibit RMP___(EDW-2). The employee's performance on individual goals accounts for approximately 70 percent of his or her overall evaluation.

Q. What are the group goals?

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

Q. Explain the third category.

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

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

A. No. While all employees are expected to operate within applicable budgets, corporate financial performance and returns are not a factor in determining the amount of incentive compensation awarded under the plan. The Company does maintain a separate plan for executives that awards bonuses based on overall corporate performance; however, the Company does not ask customers to absorb the costs associated with that plan.

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 $29.5 million. This is the total budgeted incentive compensation payout at the target incentive level for each employee participating in the incentive plan. The Utah portion of this expense is $12.4 million.

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 total compensation at the market average, and because target incentive compensation is set to market average, we expect that we will pay out, on a year after year basis, the target levels of incentive compensation.

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

A. Yes, for several reasons. First, customers should fully support the cost of incentive compensation because, as I previously mentioned, it is an essential component of an overall market-based competitive compensation program. Reducing customer support for incentive pay would result in under-market salaries, making it impossible for the company to recruit and maintain a qualified labor force, which would in turn make it impossible for the Company to provide safe and reliable service. Moreover, the goals of the plan are designed to encourage superior performance on the part of our employees to pursue the goals that directly benefit our customers—safety, reliability, and customer service. This is precisely the type of prudently designed incentive plan program that provides direct benefits to customers and which customers should therefore support.

Retirement Plans (This section is confidential)

[redacted]

[redacted]

(End of confidential Section)

Employee Health Benefits

Q. Please describe the Company’s health care benefits.

A. As with all of our benefits, we attempt to provide our employees with the same level of health care benefits that are provided by the employers with whom we compete for labor. In our case, this means offering our employees what I would describe as market average health benefits. And of course we seek to provide these benefits as economically as possible.

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

A. The Company relies of the advice of its consultants Hewitt Associates to ensure that it is securing market competitive benefits at the best possible rate. Hewitt Associates are respected experts in their field and the Company has relied on them for many years. With the help of Hewitt Associates, 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.

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

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

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

A. Yes. Beginning in 2008 the Company made adjustments to the cost sharing and plan design to reduce costs and to align with market practices. In particular, the Company established a base medical plan with a high deductible and a cost sharing of 90/10. The Company continues to offer choice into other plans, however, except for a $300 deductible plan that is offered in rural areas, these plans are set at a cost sharing of 74/26. All new hires as of January 1, 2008 have the option of selecting the high deductible plan or opting out of coverage. Exhibit RMP___(EDW-4) provides market data compiled by Hewitt Associates outlining competitive healthcare sharing structures.

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 manner that is fair and prudent for our customers.

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 calendar years 2006 and 2007, actual healthcare expenses totaled $47 million and $49 million, respectively and 2008 healthcare expenses were projected to be $53.4 million in Docket 07-035-93. Consistent with this trend, the Company has included in this application healthcare expenses on a total Company basis of $54.6 million as shown in Mr. McDougal's exhibits. The Utah allocated share of healthcare costs is $22.9 million.

Hewitt Associates has informed the Company that current trends indicate the rates for the Company's health benefits are anticipated to increase further in 2009 by between 8 and 10 percent. Specifically, Hewitt Associates projects an 8.5 percent increase for medical benefits. In comparison, MEHC, which uses Watson Wyatt as its plan expert advisor, shows a trend for MEHC in the same range, with the actual increase expected to be 9 percent. The shifts in structure previously described pass more of the increasing expense on to employees rather than customers.

Q. Does this conclude your direct testimony?

A. Yes.