1 **Q. Please state your name, business address and present position with Rocky**
2 **Mountain Power (the Company), a division of PacifiCorp.**
3 A. My name is Erich D. Wilson. My business address is 825 N.E. Multnomah, Suite
4 1800, Portland, Oregon 97232. My present position is Director, Human
5 Resources.
6 **Q. Did you submit direct and second supplemental direct testimony in this**
7 **proceeding?**
8 A. Yes.
9 **Purpose of Testimony**
10 **Q. What is the purpose of your rebuttal testimony?**
11 A. The purpose of my testimony is to respond to adjustments proposed by
12 Department of Public Utilities ("DPU") witness Mr. Mark Garrett, and Utah
13 Association of Energy Users ("UAE") witness Mr. Kevin Higgins regarding
14 compensation expenses, including annual merit and incentive pay.
15 **Q. Please summarize your testimony.**
16 A**.** My testimony shows that:
17 • The Company's Annual Merit Planning, is prudent and consistent with the
18 Company's commitment to providing compensation levels at the market
19 average. Reducing merit pay for non-union employees, as recommended by
20 DPU and UAE, would result in below-market salaries for our workforce,
21 limiting our ability to attract a competitive workforce and thus jeopardizing
22 the Company's safety, reliability, and customer service goals.
23 • The Company's Annual Incentive Plan is an integral part of the Company's

24 compensation strategy, and implements a "pay-at-risk" approach that provides
25 proper incentives to both executive and non-executive employees for the
26 achievement of important Company goals. In particular, my testimony will
27 demonstrate that objectives set for employees under the plan are tied directly
28 to goals that benefit our customers—safety, reliability, and customer service.

29 • PacifiCorp continues to evaluate its retirement plan and as such moved
30 forward with a "choice" offering in 2008 for movement from the cash balance
31 to 401k only plan participation. This offering positions the Company more in
32 line with the general direction in the industry while at the same time reducing
33 expense volatility. These changes in 2008 will benefit customers over time.
34 For this reason, the adjustments to pension expenses proposed by UAE should
35 be rejected.

36 **Background**

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

39 **A.** I believe our success is due primarily to the emphasis on cost control brought to
40 the Company by MEHC. Consistent with this new emphasis, the Company
41 constantly monitors its staffing levels and labor expenses and adjusts in
42 accordance with the economic and business conditions without compromising our
43 critical goals of safety, reliability, and customer service. In addition, we have
44 continued to redesign our health, welfare, and retirement plans to shift more
45 responsibility from the Company to our employees. Thus, despite the fact that
46 DPU and UAE recommend numerous specific adjustments to our filing, the

47 Commission should not lose sight of the fact that our request assumes some very
48 substantial cost reductions.
49 **Q. Has the Company implemented changes to its approach and program design**
50 **that are relevant to your testimony?**
51 A. Yes. In addition to efficiency, our owners place a very heavy emphasis on safety,
52 system reliability, and customer service. For this reason, our incentive and merit
53 pay programs are more focused than ever on the successful attainment of these
54 goals.
55 ***Division of Public Utilities***
56 **Proposed Adjustments to the Annual Merit Plan**
57 **Q. Please describe Mr. Garrett's proposed adjustment to PacifiCorp's Annual**
58 **Merit Plan.**
59 A. Mr. Garrett proposes to reduce the non-union merit pay adjustments. This
60 proposed adjustment would reduce payroll expenses by $1,595,297, or $609,278
61 for the Utah jurisdiction.
62 **Q. What reasons does Mr. Garrett give for his proposed adjustment?**
63 A. Mr. Garrett argues first that the level of the wage increase included in the case is
64 above the level being provided by other employers, and second that the level
65 projected in the case exceeds the Company's actual wage increases awarded to
66 nonunion employees. On the first point, Mr. Garrett points to a recent report from
67 the Bureau of Labor Statistics ("BLS") that shows average wages and salaries for
68 private industry increased at an annual rate of 2.4 percent. Mr. Garrett argues that
69 the BLS data provide a better benchmark for the Company's wage increases than

70 the data from other utilities that the Company used in its projections—especially
71 in light of the current economic climate.

72 **Q. Does Mr. Garrett provide any other reasons for his adjustment?**

73 A. Yes. As he argued in the 2008 case, Mr. Garrett believes the Commission
74 should reduce these merit increases because the Company has not included
75 adjustments for: (1) the effect of employees leaving and being replaced by lower
76 paid employees; and (2) the possibility that capitalization percentages can
77 increase, causing less labor to be expensed.

78 **Q. Do you agree with Mr. Garrett on any of these points?**

79 A. No, I do not. As a threshold matter I would note that it is reasonable to assume
80 that merit increases given to non-union employees will result in additional
81 expense to the Company in the test year. It is standard practice to annualize pay
82 increases in our filings and to my knowledge these annualized increases have
83 been accepted by the Utah Commission. They were fully accepted as recently as
84 the 2007 Utah general rate case.

85 **Q. Do you agree with Mr. Garrett's argument that the 3.5 percent increase for**
86 **nonunion employees as of December 26, 2008, used in the case overstates the**
87 **wage increases actually awarded and therefore 2009 labor cost?**

88 A. No. While the December 26, 2008, ($6.26 million) nonunion wage increase
89 included in the case (see SRM 2SS, Adjustment 4.11) is very close to the actual
90 $6.07 million nonunion wage increase awarded on that date, total test period
91 nonunion bare labor costs are actually understated in the case. The case includes
92 $193 million of nonunion bare labor costs, which is less than the $201 million

93 currently projected for calendar year 2009, the test period in this case. Had Mr.
94 Garrett focused his comparison on total labor costs, rather than on just one
95 element of those costs, he would have shown that actual labor costs are projected
96 to be higher than the labor costs included in this case. Mr. Steven R. McDougal
97 provides a more detailed explanation and reconciliation of these calculations in
98 his rebuttal testimony.

99 **Q. Do you agree that the BLS study provides a better benchmark for the**
100 **Company's projected merit adjustments than the utility-specific data used by**
101 **the Company?**

102 A. No, I believe that the utility specific data used by the Company provides a
103 superior benchmark. The Company conducts an extensive analysis on an annual
104 basis to best position itself in delivering market competitive compensation (in turn
105 merit pay adjustments). As described in my Direct Testimony, each year the
106 Company researches both the actual and planned pay and benefits offered by the
107 companies for which it competes for labor. Armed with this information, the
108 Company is able to identify with a high degree of accuracy the market
109 compensation rates necessary to attract individuals with the experience and skills
110 the Company requires. The exhibit provided in my Direct Testimony which
111 shows the planned merit adjustments by our competitive group, shows clearly that
112 our compensation is set at, and not above, market level.

113

114 **Q. Please explain why you believe the BLS wage information is not a true**
115 **comparator or relevant resource when the Company is establishing its merit**
116 **adjustment.**

117 A. Mr. Garrett takes the position in his direct testimony that the Company's
118 benchmarks are actually inflated projections when compared to actual payroll
119 increases among non-regulated utilities. However, Mr. Garrett's analysis is based
120 on data from companies that are not true comparators, and therefore does not
121 reflect the market in which the Company operates. The BLS survey uses data
122 from unspecified private companies that likely differ markedly from the size,
123 complexity, and skill requirements of our business. His comparison is therefore
124 inapt.

125 **Q. Please explain how the Company's approach is aligned to the market,**
126 **specifically in recognition of the current economic challenges.**

127 A. In addition to the comparator analysis and information, a recent study was
128 conducted by Hewitt and Associates. This study was completed in December of
129 2008 with its focus on the impact of economic conditions on 2008/2009
130 compensation spending. The results captured in this study show that companies
131 did in fact shift their planned spending in 2009 based upon the conditions. As
132 shown on page 2 of Exhibit RMP Rebuttal_(EDW1), the shift was to a level of 3-
133 3.1 percent. In comparison, as discussed above, the Company's actual 2009 merit
134 adjustment that took effect December 26, 2008, for the 2009 plan year was
135 closely aligned with this range. This demonstrates our alignment and recognition
136 of the economic conditions felt by employers, employees, and our customers.

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

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

146 *Second*, even if we were to assume some cost savings due to employees
147 leaving and being replaced at a lesser cost, they would be outweighed by other
148 payroll increases that would need to be considered. In particular, the Company
149 did not include in this case the effect on payroll expenses of promotions or what
150 we call "out-of-cycle equity adjustments." Out-of-cycle equity adjustments are
151 made when the market for a certain position shifts and the Company finds that it
152 needs to adjust compensation for that position in order to equalize pay between a
153 new, more highly-compensated employee and those in comparable positions.
154 Promotions (and associated pay increases) are necessary in order to motivate and
155 retain a qualified workforce. Both of these occur regularly, and have a real
156 impact on the Company's expenses. For instance, in 2008, the cost of out-of-
157 cycle equity adjustments equaled $282,157 and the cost of promotions was
158 $1,062,362. In 2007 out-of-cycle equity adjustments cost the Company $97,660
159 and the cost of promotions was $1,640,541. However, we have not included the

160 effect of these in this case. If we were to factor in the effect of departing
161 employees (whether or not these resulted in a decrease in expense) we would also
162 need to include figures in the effect of pay increases due to promotions and out-
163 of-cycle adjustments.

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

166 A. Mr. Garrett is correct that capitalization percentages can increase. However, they
167 can decrease just as easily. For these reasons, neither increases nor decreases in
168 capitalization percentages should be included.

169 **Proposed Adjustments to the Annual Incentive Plan**

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

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

179 The intent of the Company's Annual Incentive Plan is to put some of the
180 competitive total remuneration "at risk." The portion of pay "at risk" is the
181 guideline (or target) incentive percentage assigned to a particular job. In
182 exceptional performance years, an employee may earn more than the target

183 incentive, and in low performance years an employee may earn less than the
184 target incentive, but on average, the incentive is generally at the guideline level.
185 If the individual fails to earn the full guideline incentive, that individual will be
186 paid less than the competitive total cash compensation in the marketplace for that
187 year.

188 **Q. Please describe Mr. Garrett's proposed adjustments to the Annual Incentive**
189 **Plan.**

190 A. Mr. Garrett proposes two adjustments. *First*, Mr. Garrett proposes that the
191 Commission limit the recovery of incentive costs to the $21,250,000 included on
192 Page 4.23.3 of Mr. McDougal's exhibit, arguing that the level of incentive
193 compensation included in the case exceeds the level in the 2009 budget. The
194 Company rejects this proposed adjustment and Mr. McDougal further addresses
195 this adjustment in his rebuttal testimony.

196 *Second*, Mr. Garrett proposes that the Commission reduce the remaining
197 costs of the Annual Incentive Plan by 50 percent, resulting in a reduction to
198 revenue requirement by $7,589,318 on a total company basis and $3,071,821 for
199 the Utah jurisdiction. I will address this second proposed adjustment.

200 **Q. What reasons does Mr. Garrett offer for his recommendation that the cost of**
201 **the Plan be reduced by 50 percent?**

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

206 argues that the Plan does not provide sufficiently objective criterion for judging
207 employee performance with the result being that rewards are entirely
208 discretionary.

209 **Q. Do you agree with his proposed adjustment to reduce incentive pay expense**
210 **by 50 percent?**

211 A. No, I do not. From an overall standpoint, reducing incentive costs will result in
212 employee compensation that is below the target market. As I explained in my
213 Direct Testimony, incentive pay is not "extra pay." Rather, incentive pay is an
214 integral portion of a competitive level of pay. Over the past few years, there has
215 been a significant shift by companies to deliver compensation in the form of both
216 base pay and incentive. In addition to this market-based shift in compensation
217 philosophy, much of the emphasis on measuring employee performance is now
218 linked to safety, reliability, and customer service. Any reduction beyond the
219 competitive target incentive level would place the Company in a position of not
220 being able to offer competitive pay levels and placing operational and customer
221 objectives at risk.

222 I would also point out that unlike in prior years where the Company
223 sought recovery for the full amount of incentive awards actually paid, in this
224 case—as in the last case—we are seeking recovery for only the level of aggregate
225 incentives that are defined as market competitive in our labor markets. Any
226 incentive award that exceeds this level (which frequently occurred in years prior
227 to 2006) would be fully borne by the shareholders. Again, the level of incentive
228 included in this case is only the level to allow for fair and competitive

229 compensation, therefore enabling the Company to attract and retain the talent
230 needed to provide safe and reliable service to our customers.

231 **Q. Please respond to Mr. Garrett's criticism that the administration of the plan**
232 **appears to be discretionary.**

233 A. The evidence demonstrates that Mr. Garrett is wrong. To my Direct Testimony I
234 attached examples of Plan goals for a number of Company employees at various
235 levels. These goals provide clear and concrete bases for which rewards under the
236 Plan are administered. As can be seen from these documents, each employee has
237 between one and five key objectives that serve as goals for the year. Each
238 objective is described in detail. If an employee has more than one objective, each
239 objective will be assigned a weighting. Next, each objective is assigned a set of
240 concrete goals by which achievement of the objective will be measured. At the
241 end of the Plan year, the employee's manager will review the employee's overall
242 performance with respect to the goals and objectives and calculate the appropriate
243 award—*based upon the employee's performance with respect to these goals.*

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

248 A. No, I do not. The Company has found that, as long as goals are specific, concrete,
249 and measurable, allowing for some management discretion in making awards
250 creates a more powerful motivator for superior performance. As the Commission
251 may be aware, our previous incentive pay program *did* apply a formulaic

252 approach to determining the award and amount of incentive pay. Once an
253 employee met a certain objective, the employee was assured of a certain payment.
254 While this approach was easy to administer, we determined that it engendered a
255 certain complacency that tended to discourage rather than encourage truly
256 superior performance. Once a particular objective was met for the year, the old
257 system left the employee with little incentive to try to do even better. Under the
258 current system, managers have a finite number of dollars that they can use to
259 reward the employees under their supervision. So, if all employees meet their
260 targets, the manager is free to provide even greater awards to those who go
261 beyond their targets. The current system also allows managers to reward an
262 employee who performed in a superior fashion, but who may not have achieved
263 his or her objectives due to circumstances beyond his or her control. Thus, we
264 believe that the current program forces employees and managers to actively and
265 flexibly adjust to business demands and current circumstances. We believe this
266 plan results in a more effective work force.

267 **Q. Mr. Garrett argues that employee goals under the Plan are tied to corporate**
268 **financial results. Is he correct?**

269 A. No. Mr. Garrett is confusing goals designed to encourage operational efficiency
270 and cost minimization with goals tied directly to maximizing profits for
271 shareholders. As I show in my Direct Testimony, the first category of goals is
272 indeed included in many of the Annual Incentive Program employee goals, and
273 properly so, as efficiency and cost reduction efforts yield significant benefits for
274 our customers. On the other hand, none of the goals included in the Plan are tied

275 to the financial results—or profits—of the Company.

276 **Q. Did the Utah Commission address the issue of incentive compensation in the**
277 **last case?**

278 A. Yes. In the last case, Mr. Garrett made the same arguments he makes in this case.
279 The Utah Commission rejected his arguments in that case and found that:

> 280 We make no judgment regarding the effectiveness of the Company's
> 281 incentive program, but instead we are persuaded the total compensation,
> 282 including both base pay and incentive compensation, is reasonably
> 283 targeted to the market average of total compensation. We conclude the
> 284 elements of the incentive compensation program, for which the Company
> 285 seeks recovery from ratepayers, are not related to financial goals.
> 286 Therefore, we accept the Company's test period forecast for incentive pay.
> 287 (Final Order, Docket 07-035-93, page 62)

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

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

294 **Proposed Adjustments to the Supplemental Executive Retirement Plan**

295 **Q. Please describe Mr. Garrett's proposed adjustment to the Company's**
296 **Supplemental Executive Retirement Plan ("SERP").**

297 A. Mr. Garrett proposes removing SERP costs in the amount of $1,857,705 on a total
298 company basis and $751,917 for the Utah Jurisdiction.

299 **Q. Do you agree with Mr. Garrett's proposal?**

300 A. No, I do not agree. At the outset I would point out that, as Mr. Garrett himself
301 suggests, offering supplemental retirement benefits to corporate management has

302 been "typical" and thus consistent with the Company's philosophy of providing
303 market competitive pay and benefits. As such, the SERP is very much like any
304 competitive health and welfare plan, and is an integral part of competitive
305 compensation. For this reason, Mr. Garrett's attempt to tie this plan to
306 shareholder profits is misleading. The SERP is not an incentive program and is
307 not intended to encourage higher shareholder profits.

308 In addition, the Commission's final order in the Company's 1999 general
309 rate case supported the Company's position and rejected the proposed
310 adjustments.

311 Finally, I would note that at the time of the MEHC acquisition, the SERP
312 was frozen and no new participants have become eligible. For this reason, the
313 expenses associated with the SERP will not constitute an increasing cost.

314 ***<u>Utah Association of Energy Users</u>***

315 **Proposed Adjustments by the Utah Association of Energy Users**

316 **Q. Please describe the adjustments proposed by the Utah Association of Energy**
317 **Users.**

318 A. Mr. Higgins, representing the Utah Association of Energy Users, proposes
319 adjustments to wage and benefit expense as a whole. The overall adjustment
320 proposed is $5,354,094 for the Utah jurisdiction.

321 **Q. What reasons does Mr. Higgins give for his proposal?**

322 A. First off, Mr. Higgins argues that, given the current economic situation facing the
323 country, a "business as usual" approach to utility compensation is unreasonable.

324

325 **Q. Do you agree on this point?**

326 A. On this point I do agree with Mr. Higgins. All companies need to adjust
327 employee wages and benefits in light of economic conditions, and I agree that
328 given the current economic situation, it is even more important than usual that the
329 Company operate as efficiently as possible. However, I disagree with Mr.
330 Higgins' implication that the Company's proposal fails to assume such efficiency.
331 On the contrary, I believe that the costs the Company seeks to recover in this case
332 reflect the high degree of efficiency and cost savings necessary in the current
333 economy. As I've noted earlier in my rebuttal testimony, Rocky Mountain
334 Power's compensation package, including employee health care, retirement, and
335 other benefits, is aligned with the marketplace. So I do not believe the Company
336 can cut costs further without jeopardizing its ability to attract a workforce with the
337 skill and experience necessary to deliver safe and reliable electricity to our
338 customers.

339 **Q. Does Mr. Higgins provide any other reasons for his recommendation?**

340 A. Yes. In addition to citing the economy, Mr. Higgins highlights a number of more
341 specific arguments as to why he believes the Company's labor costs are too high.

342 **Q. The first specific argument Mr. Higgins makes is that the Company has**
343 **overbudgeted for benefits and overhead each of the past three years,**
344 **implying that the Company's estimates in this case are too high. Can you**
345 **respond?**

346 A. This argument is a red herring. The issue in this case is not how the Company
347 may or may not have budgeted in the past, but rather the reasonableness of the

348 Company's projected labor expenses in this case. As we have shown, the overall
349 labor costs in this case are not overstated, but are, on the contrary, understated.
350 The amount sought is $6 million less than the amount sought in the 2006 general
351 rate case. Moreover, as described in Mr. McDougal's Second Supplemental
352 Testimony on pages 15-16, the Company has reduced the amounts requested in
353 this case by approximately $50 million dollars in order to bring them down to
354 budgeted levels. The calculations underlying this $50 million reduction are shown
355 on pp. 4.23.1-.2 of Exhibit SRM-SS Exhibit B. As such, the total labor expenses
356 sought are reasonable and conservative.

357 **Q. What other specific arguments does Mr. Higgins raise?**

358 A. Mr. Higgins also points to the Company's workers' compensation expense in
359 support of his adjustment. Specifically, Mr. Higgins notes that the workers'
360 compensation expense included in the case represents a 58 percent increase over
361 the workers' compensation expense experienced in the base period—the year
362 ending June 2008. The workers' compensation expenses of $2.146 million for the
363 base period, however, were unusually low compared to the prior years experience
364 of $3.0 million and $2.9 million for 2006 and 2007 respectively. The Company
365 developed the test period expenses of $3.4 million based upon a reasonable
366 expectation for the workers' compensation rates and a reasonable expectation of
367 the actual costs. While the 2009 rates – which we will not receive until April--
368 may be closer to those experienced in 2008, or those projected for the test period;
369 the Company has no way of knowing for sure. Regardless, the overall labor
370 expenses included in the case are conservative and reasonable.

371 **Q. What other arguments does Mr. Higgins make in support of his adjustment?**

372 A. Mr. Higgins cites to the Company's new retirement plan and argues that the
373 increased expenses associated with the plan should not be a burden on the
374 customers. Specifically, Mr. Higgins, points to the fact that the increased
375 expenses associated with the 401(k) plan more than offset the savings in the old
376 defined benefit plan and argues for an adjustment on that basis.

377 **Q. Do you agree with Mr. Higgins on this point?**

378 A. No. First, it is important to understand that the fundamental impact of the
379 transition from the old defined benefit pension plan to the new 401(k) plan is that
380 under the 401(k) plan, the investment risk for future retirement benefits will be
381 borne by the employee, instead of the Company (ratepayer). Whereas the defined
382 benefit plan provided a pay credit percentage with a guaranteed level of interest,
383 that pay credit percentage is now provided to the employee in the 401(k) plan,
384 with the employee deciding how it should be invested. This shift reduces the
385 ongoing defined benefit expense while increasing the 401(k) expense.

386 Second, an analysis of the details underlying the changes in the pension
387 and 401(k) expense supports the Company's view that the transition will be a
388 benefit as opposed to a burden to our customers. Beginning in January 2008, all
389 new hires, with the exception of those under certain collective bargaining units,
390 were only eligible to participate in the 401(k) and are not eligible to participate in
391 the defined benefit plan. Also, during 2008, the Company entered into
392 collectively bargained agreements with IBEW local 659 and IBEW local 125
393 where the final average pay accruals under the defined benefit plan were frozen

394 and all future retirement benefits are derived from the 401(k) plan. Lastly, as
395 previously noted, in 2008 the Company provided a choice (defined benefit vs.
396 401(k)) offering to nonunion employees and from that, 41 percent of the group
397 elected to freeze their defined benefit plan and have all future retirement benefits
398 derived from the 401(k) plan starting January 1, 2009.

399 It is true that the reduction in the pension expenses for 2009 are more than
400 offset by the increases in the 401(k) expenses. However, this fact is the result of
401 the declining financial market—a factor over which the Company has no
402 control—which would have driven increases in the pension expense whether or
403 not the Company changed its retirement plans. To assist in demonstrating this
404 fact, the Company sought the assistance of Hewitt Associates—an actuarial firm
405 upon whom the Company regularly relies for analysis of its retirement plans. As
406 outlined in the below table, the decision to change the retirement plan created a
407 nearly identical expense when compared to the projected 2009 expenses if the
408 plan had remained the same.

	$ - millions		
	Actual 2007	Actual 2008	Budget/GRC Projection 2009
Actual/Budget			
PRP*	51.5	26.2	25.7
401(k)	18.5	23.4	46.0
Total	70.0	49.6	71.7
Without "Mgt actions"			
PRP*	51.5	30.1	39.8
401(k)	18.5	19.9	30.4
Total	70.0	50.0	70.2
Savings	0.0	0.4	(1.5)
Significant Changes	2007	2008	2009
	Discount rate of	Discount rate of	Discount rate of 7.75%
	Discount rate of	New hires 401k only	401k Choice for
	Freeze Final	Change to 401k for	Change to 401k for
		Actual asset return	Asset return projected

*PacifiCorp Retirement Plan

409 This table demonstrates that if the Company had made no changes to its
410 retirement plan, the costs would have been nearly the same.

411 **Q. If the table demonstrates that the Company's expense for 2009 would have**
412 **been the same had the Company made no changes, why do you say that the**
413 **new plan results in a benefit to customers?**

414 A. Customers will benefit from the transition to the new retirement plan because the
415 new plan will reduce the risk facing the Company and will result in net savings to
416 customers over time. The fact is that the declining economic forecast—more than
417 the decision to change the employee retirement benefits—is responsible for the
418 Company's increased retirement expenses for 2009. As the market value
419 decreases, the Company is required to pay more into the defined benefit plan to
420 ensure it compensates for the declining value of the financial markets.

421 The risk of a declining market, however, is one key reason the Company

422 changed its retirement plan. As noted above, the changes protect customers from
423 market volatility and future economic turmoil because they place the risk on the
424 employee rather than the ratepayers.

425 **Q. Do you have any concluding remarks regarding the overall labor expenses**
426 **sought in this case?**

427 A. Yes. While looking at each particular adjustment sought by the DPU and UAE,
428 it's important to keep the whole labor picture in mind. The total labor costs
429 sought by the Company are conservative and reasonable based on the labor
430 market the Company expects to encounter in 2009.

431 **Q. Does this conclude your rebuttal testimony?**

432 A. Yes.