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 a general 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 and retirement 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. As background, please briefly describe the Company's compensation philosophy and note any changes that have been made since the last filing.

A. There have been no changes to the Company's compensation philosophy or programs since the last filing. The Company's primary objective in establishing employee compensation is to provide pay at the market average. Compensation at the market average (competitive level) is critical to attracting and retaining qualified employees to support the business and our customers. 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, in 2008 the Company 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.”

Retirement Plans

Q. What retirement plan changes were implemented in 2008 and are being implemented in 2009?

A. At the beginning of 2008, the pension plan benefits were frozen for all members of IBEW local 659. All their future retirement benefits will be derived from the 401(k) plan. The same approach went into effect on October 1, 2008 for members of IBEW local 125 who were not yet age 53. Local 125 members age 53 or older will continue to receive final average pay accruals from the pension plan. Effective January 1, 2009, this approach also went into effect for nonunion employees who elected such. Nonunion employees made an election in the fall of 2008 to either continue receiving benefit accruals through the pension plan or receive all their future retirement benefits from the 401(k) plan. The pension accruals for nonunion employees are provided through a cash balance formula. Those opting out received contributions into their 401(k) account using the same formula. The results of the "choice" was that 41 percent of the nonunion employees elected to freeze their pension benefits and have all future retirement benefits derived from the 401(k) plan. During 2009, the Company will be involved in collective bargaining negotiations with three of its unions. At this time, it is not known what, if any, changes will occur to their pension and/or 401(k) benefits.

Following is an updated table which shows that the retirement plan changes create nearly identical expense amounts:

PacifiCorp Effect of Retirement Plan Changes				
	$ millions			
	2007	**2008**	**2009**	**2010**
Actual/Budget				
PRP*	51.5	26.2	23.3	27.6
401(k)	18.5	23.4	35.8	35.8
	70.0	49.6	59.1	63.4
Without "Mgt actions"				
PRP*	51.5	30.1	38.2	42.0
401(k)	18.5	19.9	20.5	21.5
	70.0	50.0	58.7	63.5
Savings	0.0	0.4	(0.4)	0.1
* PRP includes Electric, Mines, and Non-regulated groups				

Q. What are the key aspects of the change in focus to a 401(k) only approach rather than through a defined benefit (pension) approach?

A. First, for those employees who have shifted to the enhanced 401(k) plan, the fundamental impact of the transition from the old defined benefit pension plan to the new 401(k) plan is that the investment risk for future retirement benefits is borne by the employee, not by the Company and ultimately our customers. Whereas the defined benefit plan for nonunion employees provided a pay credit percentage with a guaranteed level of interest, that same pay credit percentage is now provided to the nonunion employee in the 401(k) plan, with the employee deciding how it should be invested. This shift reduces the ongoing defined benefit expense while increasing the 401(k) expense.

Second, an analysis of the details underlying the changes in the pension and 401(k) expense supports the Company's view that the transition will be a benefit in the near-term for our customers. Beginning in January 2008, all new hires, with the exception of those under certain collective bargaining units, are only eligible to participate in the 401(k) plan. Also, during 2008 and effective January 1, 2009, all the retirement plan changes set forth above focused on freezing the defined benefit plan accruals and deriving all future retirement benefits from the 401(k) plan.

Q. If the table demonstrates that the Company's expense for 2009 and 2010 would have been the same had the Company made no changes, why do you say that the new plan results in a benefit to customers?

A. In a declining economy, the Company's pension plan expenses rapidly increase because the plan's assets typically decrease with the overall decline in the financial markets and the plan's obligations typically increase due to lower interest rates. In a robust economy, the opposite is likely the case. So, in the current environment, customers are the beneficiaries of this transition to the new retirement plan. With the elimination of the guaranteed return associated with the defined benefit plan, employees bear the risk of market volatility and future economic turmoil with regard to their ongoing retirement benefit accruals. While the Company and our customers forgo this risk, favorable economics which could decrease costs of these retirement benefit accruals is also foregone. Thus, the determination of net savings over time is dependent on future economic circumstances.

Medical Expenses

Q. Do any other benefit categories in the filing show significant increases over the base period?

A. Medical Benefits increased from $49.7 million to $55.2 million, an 11.1 percent increase over 18 months, or 7.38 percent annually. This is in line with other companies in our industry. In support of this level of increase, shown below is a chart of Hewitt's health care trend expectations for 2009 and 2010. These trend numbers are developed based on a series of nationally available data (national health expenditures, CPI-W, HHVI, Milliman Health Cost Index, and pharmacy benefit manager trend reports) and Hewitt internal surveys.

PacifiCorp
Annual Trend of Medical Expenses (Including Prescription Drugs)

	Active/Pre-65 Retiree				Post-65 Retiree	
Year	Ind	PPO	POS	HMO	Ind	HMO
2008-2009	8.5%	7.5%	7.5%	9.5%	6.5%	6.5%
2009-2010	8.0%	7.0%	7.0%	9.5%	6.5%	6.5%

Other Issues

Q. There was a communication sent out to all employees on June 16, 2009 stating there would be a reduction in the calendar year 2010 merit increase and an increase in the employee’s share of the cost of medical insurance. Has this been incorporated into the case?

A. Yes. On page 4.19.4 of Exhibit RMP___(SRM-2) there is a reduction in the 2010 Non-Power Cost Operation and Maintenance Target of $3.3 million which reduces the revenue requirement in the filing. Please refer to that page for additional detail.

Q. Does this conclude your direct testimony?

A. Yes.