**Q. Are you the same Erich D. Wilson who submitted direct testimony in this proceeding?**

A. Yes.

**Q. What is the purpose of your rebuttal testimony?**

A. The purpose of my rebuttal testimony is to explain why the Commission should reject certain labor related adjustments proposed by the Division of Public Utilities witness Mr. Mark E. Garrett, Utah Association of Energy Users Intervention Group witness Mr. Kevin C. Higgins and the Office of Consumer Services witness Ms. Donna Ramas. Specifically, I address:

- The proposed removal, or adjustment, of incentive expense would result in below-market compensation.
- The Company's base wage expense is reasonable and consistent with the competitive market in which the Company competes for labor throughout its service territory.
- The Company continues to closely manage its workforce and allocates the resources prudently. The Company's incentive program is not a "bonus." It is an integral part of each employee's market-based compensation package and is based on the employee's satisfactory achievement of individual goals. Each employee's goals associated with the incentive portion of compensation are related to factors other than the Company's revenues and net income. The achievement of the goals provides benefits or avoids costs to customers consistent with Commission precedent.
- The company measures productivity through various efforts such as

equivalent availability, customer service standards and surveys, safety and reliability to point to a few of the many. These measures have been trending positively since 2006 and linking to and disallowing salary and benefit expense is neither reasonable nor a prudent approach.

- The medical benefits expense in this filing is forecasted consistently with the approach the Company has taken historically and has been accepted by this commission. The Company continues to manage and adjust the plan design and cost sharing to remain market competitive. The trend rates for our industry remain in the 8-10 percent range given the demographics of the workforce and the nature of the work performed in support of our customers.

**Compensation Philosophy and Background**

**Q. Please briefly review the Company's compensation philosophy.**

A. As I explained in my direct testimony, the Company's primary objective in establishing employee compensation is to provide total compensation (salary and incentive) at the market average. Compensation at the market average (competitive level) is critical to attracting and retaining qualified employees necessary to support our customers' needs.

I also explained in my direct testimony that the Company's belief that, in order to encourage superior performance a certain percentage of each employee's market compensation must be "at risk." The Company's Annual Incentive Plan is structured so that each employee has the opportunity to receive total compensation at the market average, so long as the employee performs at an acceptable level. In exceptional performance years, an employee's 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. Central to the Company's approach to total compensation is that, while certain employees may be paid more than or less than market in a given year as a result of the incentive portion of compensation, on an overall basis the base compensation and incentive will result in a level of compensation commensurate with the market. Stated another way, in the unlikely event every employee performed at exactly the same level, each employee would be paid only at the market average.

**Q. Has the Company's general compensation philosophy and approach changed in any material way in the last five years?**

A. No. Since MidAmerican Energy Holdings Company (MEHC) acquired PacifiCorp in 2006, PacifiCorp's compensation philosophy has not changed. The Company only seeks recovery for compensation at the market level, consistent with this Commission's prior orders.

**Incentive Compensation**

**Q. Is a compensation structure that includes an incentive element to reach competitive pay levels consistent with Commission policy?**

A. Yes. The Company's level and structure of compensation reflect the market and an overall level of pay that is at the market average. The Commission has previously ruled in Docket No. 07-035-93 that "we are persuaded the total compensation, including both base pay and incentive compensation, is reasonably targeted to the market average of total compensation." (order at 62) Because the Company's compensation structure has not changed, and remains reasonable, we again ask the Commission to approve it.

**Q. Please describe Mr. Garrett's proposed adjustment to the incentive portion of PacifiCorp's total compensation package.**

A. Mr. Garrett proposes to adjust the Company filing to actual incentive paid and limits this to the average of the actual payments made for the period of 2008 through 2010. This would result in incentive compensation of $28,842,195 and a reduction of $1,414,163 on a Utah allocated basis.

Mr. Garrett supports his position by unfairly viewing the incentive plan as based solely on the discretion of senior management, to apply criteria he alleges is not clearly defined.

**Q. Do you agree with Mr. Garrett's perceptions of the incentive plan award determination?**

A. No. I do not agree with Mr. Garrett's view of the incentive plan award determination.

My disagreement with his view that the plan is solely discretionary and unclear comes from knowing how the plan actually operates. Not discretionarily but rather more quantitatively, at the beginning of each year each employee, along with their manager, assesses the direction and goals of the business/department and set forth clear and defined goals that the employee will be measured on. These goals and the performance against them, frame the decision and incentive award allocation made by the manager. It is clearly defined.

**Q. Do you agree in concept with Mr. Garrett's proposed adjustment using the average of actual incentives paid during the test year?**

A. Yes. As I've stated, in appreciation of the recent economic challenges all parties have faced, and also in recognition that the actual incentive award payments made by the Company to its employee's have been set with these challenges in mind, I would support the concept of an averaging for the amount of annual incentive expense to be included in this case. I will explain the calculation on this average further on in my testimony.

**Q. Please describe Ms. Ramas's proposed adjustment to the incentive portion of PacifiCorp's total compensation package.**

A. Ms. Ramas proposes to adjust the Company filing to actual incentive paid and limits this to the average of the actual payments made for the period of 2009 through 2010. In her proposal, she also proposes to escalate the result of the two year average by the planned 2011 merit increase and 50 percent of the planned 2012 merit increase. This would result in incentive compensation of $29,536,612 and a reduction in the filing of $1,212,727 on a Utah allocated basis.

**Q. Do you agree with Ms. Ramas's proposed adjustment?**

A. Yes, with qualifications. Ms. Ramas is not disallowing incentive costs per se, but rather attempting to adjust to a normalized level of incentive for rate making purposes. Ms. Ramas elects to use two years (2009 and 2010) as her variables, which were the two lowest years relative to budget. More importantly, the two most recent years she uses reflect significant economic challenges.

The concept of averaging of certain expenses that tend to fluctuate from year to year is an acceptable approach in rate making for some situations. While only two data points (2009 and 2010) is insufficient for a proper average, the Company is willing to support a three year historical average calculated by comparing the actual AIP payout rate as compared to payroll (regular time, overtime, and premium pay) for years 2008 to 2010, multiplied by June 2012 test period wages. This adjustment would result in an average expense of $30,078,000 on a total Company basis. Company witness Mr. Steve R. McDougal has included the impact of adjusting incentive compensation to the three-year average level in Exhibit RMP___(SRM-2R). The Company's proposal reduces revenue requirement by approximately $2,698,184 on a total Company basis, or $1,130,603 on a Utah allocated basis.

**Base Wages**

**Q. Please describe Mr. Garrett's proposed adjustment to the base wage portion of PacifiCorp's total compensation package.**

A. Mr. Garrett approaches wages under the header of payroll and related expenses. Mr. Garrett's position is that the Company has only considered a single element of payroll costs in its proposed payroll adjustment (pay increases). He goes on to state that the Company has failed to consider an adjustment for the levels of productivity improvements that should also be attained during this same performance period. He takes the position that productivity gains should offset payroll increases with a simple average of 1.5 percent per year. Therefore, his adjustment reduces payroll expenses by $9,556,113 on a total Company basis and $3,822,820 on a Utah allocated basis.

**Q. Do you agree with Mr. Garrett's proposed adjustment to use a nine year average for payroll expense?**

A. No. First and most importantly, Mr. Garrett does not disagree with the levels of market competitive merit levels the Company has included in this filing. However, his assessment and recommendation that productivity should offset or neutralize the merit increases provided to employees for their performance is unreasonable and not a competitive practice. Improved employee performance, and the reward and recognition for that performance, are fundamental to any company being successful. Reducing the payroll expense based on a perceived statistical value is a disincentive and results in less than market compensation.

Along with the performance of our employees, we have implemented technological changes and most importantly sound management and business practices which are the key overall drivers to productivity advancement. Therefore, I don't support in any way an adjustment to our filed wage expense under the argument of productivity offset.

**Q. In Mr. Garrett's testimony, he presents what he claims is a corrected version of the labor costs per kWh table from my direct testimony with the actual June 2010 wage and benefit cost substituted for the prior rate case projection. Does his table present an accurate representation of June 2010 labor costs per MWh?**

A. No. Mr. Garrett updates the table with actual wage and benefit expense from the 12 months ended June 2010, but he fails to update the table with total Company load from that same time period. Below I show a correct version of Mr. Garrett's table with total Company load from the 12 months ending June 2010. The corrected table shows that projected labor costs as filed for the test period are slightly lower on a cost per MWh than during the June 2010 period. With the labor related adjustments the Company is including in our rebuttal filing, the comparison would show a larger reduction in cost per MWh.

| | 12 Months Ending June 2012 | 12 Months Ending June 2010 | Change |
|---|---|---|---|
| Wage & Benefit Expense | $520,029,165 | $485,175,759 | 7.2% |
| Total Load - MWH | 61,585,034 | 57,390,884 | 7.3% |
| $/MWH | $8.44 | $8.45 | -0.1% |

**Q. Please describe Mr. Higgins's proposed adjustment to the wage and benefit portion of PacifiCorp's total compensation package.**

A. Mr. Higgins proposes to remove a portion of the wage and benefit compensation package, resulting in an overall $8.5 million disallowance. Mr. Higgins argues that the Company's proposed wage and benefit expense is 7.2 percent greater than the actual expense for the 12 months ending June 2010. He conveys the increases in expense are based on pension ($10.3 million) and medical benefits ($5.8 million). He also refers to an increase in the annual incentive plan of 7.1 million and regular wage expense increasing by 16.4 million.

**Q. Do you agree with Mr. Higgins's proposed adjustment?**

A. No. Mr. Higgins inappropriately groups a variety of items. He does not demonstrate why any of the costs are unreasonable, and he uses two arguments in support of his position which are neither applicable nor valid to Utah customers.

The first argument he makes suggests that the Commission follow a recent order of the Idaho commission wherein that commission refused to recognize the Company's actual compensation expense. The Idaho commission referenced its belief that the Idaho economy was somehow worse than the economy elsewhere in the states where the Company has employees. The Company strongly disagrees with the rationale of the Idaho commission and notes that, even if the Idaho commission were correct, the same situation does not exist in Utah. According to the Utah Department of Workforce Services, the Utah unemployment was 7.3 percent in May 2011 as compared to a national average of 9.1 percent.

One of the impacts of the recent recession was that wage increases have been very modest. Compared to the past couple of decades, wage increases over the last couple of years were markedly lower. In 2010, Rocky Mountain Power's total wages actually increased only 0.4 percent versus 2009, as wage increases were limited because certain goals were not met. In contrast the Utah Economic Summary reports that the average wage increase in 2010 among all employers in Utah was 1.6 percent. With the cost of living trending upward, it is expected that wages will rise more than was the case during the recession. IHS Global Insights, a global information company, projects Utah wages will increase 2.8 percent in 2011.[1] The wage increase at Rocky Mountain Power that is part of this rate request is equivalent to 1.8 percent annually.

Additionally as I have shown, our compensation philosophy is to provide compensation at the market average. The 2010 wage increases for non-

[1] Total Non-farm Average Annual Wage, Utah, IHS Global Insight, States, Core Data, released June 14, 2011

represented employees were based on a detailed market analysis of the actions being taken in the labor market. From this assessment, and also factoring in the economic climate and conditions facing our customers, the Company implemented 2010 wage increases slightly below market practices. Further, only those employees who received a base compensation below $100,000 were eligible for an increase. For 2011, the Company continued with its practice of assessing the labor market and provided the opportunity for a 1.96 percent wage adjustment that was effective December 26, 2010, for the 2011 performance period.

**Q. Does Mr. Higgins's proposed adjustment take into account present and future circumstances?**

A. No. Mr. Higgins understates the future. He suggests wages and employee benefit costs might only rise 0.75 percent in 2011. This perspective is not supported by actual wage increases required by union labor contracts in 2011 or by the informed projections of human resource experts. We have carefully managed to control expenses during the recession and continuously strive on a regular basis to make improvements. But, wages and employee benefit expenses are now expected to rise at a faster rate than was experienced during the recession. Mr. Higgins suggests that because wage and benefit increases over the past couple of recession years have been modest, the 2011 increase should be the same. Increases to wages and benefits will be modest, but there are solid reasons these expenses will increase more than the level suggested by Mr. Higgins. Those reasons include the following.

- The contract with IBEW Local 57, which represents many of the

Company's employees in Utah, will raise wages by 1.75 percent this year.

- The actual wage increase for non-union employees in January 2011 was 1.96 percent.
- Health care costs at Rocky Mountain Power are expected to increase approximately 8 percent in 2011 and 2012, which is very favorable compared to the level of increase many other employers anticipate.
- Pension related expenses, are now anticipated to increase at an annualized rate of 3.8 percent during the test period, largely due to recent program changes.

The second argument Mr. Higgins makes is focused on the challenging economic times and that "utilities should not be exempt from the belt-tightening that its customers must endure during challenging economic circumstances." As I have testified, the Company has reduced and in some cases eliminated wage increases and, in fact, is in danger of not having compensation at market levels. The market levels already reflect the impact of the general reduction in compensation growth and further reducing the market data would double-count the impact of the recession.

**Q. Why do you recommend the Commission reject Mr. Higgins' flawed assumptions?**

The Company firmly believes that the prudent approach to compensation is to apply a consistent philosophy based on total compensation market data in both good and bad economic times. The Company does not include an adder above market survey data when economic conditions are positive and no subtracter should be included when economic times are less favorable.

Mr. Higgins' approach of taking a performance period of 2010 and adjusting by a set percentage without considering the actual data and results that are evident in the market, is neither fair nor reasonable for either the customer or the Company’s employees. I therefore encourage the Commission to reject the proposed adjustments brought forth by Mr. Higgins on behalf of UAE.

**Q. Please describe Ms. Ramas’s proposed adjustment to the wage and benefit portion of PacifiCorp’s total compensation package.**

A. Ms. Ramas proposes a negative 1.27 percent be applied to the Company’s filing of regular, overtime and premium pay. Ms. Ramas cites that this reduction is appropriate and addresses an over projection as the Company has not accounted for the actual FTE’s in the base year and subsequent period. This adjustment reduces the filing by $4,342,863 on a total Company basis and $1,818,516 on a Utah allocated basis.

**Q. Do you agree with Ms. Ramas’s proposed adjustment?**

A. Yes, with qualifications. Ms. Ramas correctly points out that there has been an adjustment in FTE’s over the last few years. This change in FTE levels was neither planned nor is it a level that is expected to continue as the Company moves forward. A key element of this discussion point not raised by Ms. Ramas in her testimony is that at the same time these changes were occurring, the Company was similarly recruiting for these open positions and also moving forward with adding apprentices during this period to support customer needs. Although we have seen signs of improvement in the economy, it is still very unstable and therefore difficult to truly convey confidence that the Company will be able to fill all its open positions without seeing a degree of offset in terminations. Therefore, for this filing only, the Company accepts the proposed FTE adjustment made by Ms. Ramas and the related adjustment to the filing. The Company has recalculated Ms. Ramas adjustment to also remove the associated payroll tax as shown in Exhibit RMP___(SRM-2R), Adjustment 12.8. The Company's proposed adjustment reduces test period wages by $4,648,102 on a total Company basis and $1,947,665 on a Utah allocated basis.

**Health and Welfare (Benefits) Background**

**Q. Please briefly review the Company's approach to providing health and welfare benefits to its employees.**

A. The primary objective in establishing employee health and welfare benefits is to provide a total benefits package at the market average. Benefits provided at the market average (competitive level) is critical to attracting and retaining qualified employees to support the business and our customers.

**Q. Please describe Mr. Garrett's proposed adjustment to the medical expense included in this filing.**

A. Mr. Garrett argues that a study he has reviewed, provided by the consulting firm of Towers Watson, projects health care cost for U.S employers will increase an average of 6.34 percent in 2011. He also notes in his testimony that this Towers Watson report takes the position that health care cost have reached a plateau ranging from 6-7 percent. Based upon this source of general information, Mr. Garrett proposes to average the results of the Towers Watson general data with the companies plan and industry data as provided by Aon Hewitt to derive a resulting reduction in medical expense of $473,789 on a total Company basis and $198,393 on a Utah allocated basis.

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

A. No. The demographics of our industry and more specifically our employee workforce do not lend itself to comparing across general data results. The information and consultation from Aon Hewitt on our medical cost trend is derived by a comprehensive assessment of our plan design, workforce and most importantly, our claims experience. For example, the first quarter 2011 is showing a trend of 16 percent and is due in part to a large number of high cost claims brought forth year to date (ex. cancer claims).

While I accept that the Towers Watson source is a credible resource, for trending purposes it does not account for the specifics of our workforce and is not a comprehensive result thereby providing confidence in using for decision making. Therefore, I recommend that the commission not accept Mr. Garrett's proposed adjustment to average two different data sources.

**Q. Are there any adjustments the Company deems appropriate?**

A. Yes. The Company has included adjustments to test period labor costs in its rebuttal filing that address the specific issues raised by DPU witness Mr. Garrett and OCS witness Ms. Ramas. These adjustments are more fully addressed by Mr. Steve McDougal. In addition, the Company has replaced its original estimates of 2011 expense for pension and post retirement related costs to reflect the most recent actuarial studies available (which will determine the actual 2011 expense).

The Company's adjustments reduce test period labor expenses by approximately $6.1 million on a Utah allocated basis. With these adjustments included in the Company's rebuttal case, further adjustment to total compensation or benefits are unwarranted and should not be accepted by this Commission.

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

A. Yes.