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

A. My name is Erich D. Wilson. My business address is 825 N.E. Multnomah Street, 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, San Diego in 1992. In addition, I achieved the Certified Compensation Professional status from the American Compensation Association in 1999 and have kept this certification current by 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 and Overview 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 to support the costs related to these areas included in the test period.

Q. In your testimony, do you address both union and non-union compensation and benefit plans?

A. The focus of my testimony is on the plans and programs provided to the company's non-union workforce. Our union workforce and the compensation and benefit plans provided to them are governed by their respective collective bargaining agreements. These agreements are reached between the company and union and set forth to provide market competitive level compensation, benefits and work rules. The respective levels associated with the union workgroup are addressed in the exhibits of Mr. Steven R. McDougal.

Q. Please provide an overview of your testimony.

A. This overview focuses on the total compensation plan (consisting of base pay and annual incentive), pension plan and healthcare benefit plan. 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. I also demonstrate that the Company has prudently contained increases in labor costs since the last rate case and, in particular, has kept increases in benefit costs at a reasonable level that reflects the economic conditions and market.

Q. What factors does the Company consider with respect to its compensation and benefit costs?

A. First, the Company's philosophy continues to be to keep operations and maintenance and administrative and general costs under control to mitigate the impact on customer rates of the increased levels of capital investment currently being made.

Second, while it is important to keep compensation and benefit costs under control, it is still critical for the Company to be able to retain, and attract competent and qualified personnel to manage and operate the system. To do so, the Company continues to ensure that its wage levels are aligned with the practices within the labor market. The economic challenges facing the economy have resulted in wage increase levels below what had been seen in prior periods. This is evident by the wage increase levels implemented in 2009 of 1 percent to 1.75 percent, and in 2010 and 2011 of 2.0 percent compared to the traditional levels in the 3-4 percent range. The implemented level for 2012 was 2.0 percent and the planned level for 2013 is 2.25 percent. The market continues to see a shift to having employees bear more of the cost of benefits. The Company continues to shift the cost sharing and cost of plans to the employees to align with current market practices.

Total Compensation

Q. What is 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 or near the market average. Competitive compensation is critical to attracting and retaining qualified employees. The market for the skilled positions required to manage and operate a utility system is extremely competitive. Thus, the Company endeavors to provide the same general pay levels and benefits in its total compensation package as are included in the packages provided by others in the industry. The Company believes that providing total compensation at or near market levels results in reasonable total compensation costs.

Second, the Company believes that in order to encourage superior performance, some portion of each employee's total compensation must be "at risk" and dependent upon individual performance and achievement of a limited number of specific business goals. I discuss in detail how this Annual Incentive Plan operates later in my testimony.

Q. How does the Company determine the total compensation package for each position?

A. Each of the Company's positions has been assigned a grade within the Company's overall salary structure. At least annually, the Company collects market data for comparable positions and calculates the average data point for total compensation for each grade. Market data is provided through a variety of compensation studies produced by experts/organizations, including AON Hewitt, Towers Watson, and Mercer. In addition, the Company uses an on-line tool "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 the Company determines the appropriate level of total compensation for a specific grade, it then determines the “at risk” portion of the compensation for each grade. 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 amount of pay at risk and thus the higher the percentage of potential incentive pay. The “at risk” portion of compensation (i.e., “incentive compensation”) is administered through the Annual Incentive Plan.

The remaining percentage of total compensation which is not at risk 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 each non-represented employee with incentive to perform at an above-average level. The plan is not a bonus; additional (i.e., incentive) compensation is not layered upon base compensation that is already at market levels for total compensation. Through the process I discussed above, base compensation for each position is set at a level below the market level for total compensation for that position. Only if an employee performs at an acceptable level for the position will the employee have an opportunity to earn total compensation at or near comparable positions in the market.

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 what a salary-only plan would be, the benefit to customers is greater.

Q. How is the incentive compensation plan implemented?

A. First, before the distribution of the "at risk" compensation dollars, senior Company management assesses the Company's achievement of certain critical business goals such as safety, customer satisfaction, and managing expenses in relation to revenues. Underperformance by the Company in satisfying critical business goals may result in a downward adjustment of the total pool of "at risk" dollars available for distribution to all Company personnel. For example, the Company's underperformance in satisfying one or more of these goals resulted in reduction in the total amount of incentive compensation available for distribution to 85 percent in both 2009 and 2010 and to 87 percent in 2011.

At approximately the same time, supervisors meet with each of the employees in their group to conduct an assessment of the employee's performance throughout the year against the employee's individual goals and other performance objectives. The results of these performance reviews and associated scores are reported to Human Resources.

Then, after the total pool of "at risk" compensation available for distribution has been determined by senior management, supervisors are informed of the amount of incentive compensation available for distribution within their group. Based on this information, each supervisor submits the recommended incentive payments for each employee in their group to Human Resources for review and consistency.

Q. How does the Company ensure that an employee's individual goals are consistent with overall business goals?

A. Each year, the Company's senior management, in conjunction with MidAmerican Energy Holdings Company, set the overall goals for the Company. All of these goals focus on delivering safe and reliable electricity to our customers and providing excellent customer service. Goals include safety goals such as reducing lost time, recordable, preventable, and restricted duty incidents. Customer service goals include implementing local and regional customer service improvements, improving visibility and relations with industrial customers and consumer associations, and improving overall customer satisfaction. Other goals relate to operating within established budgets, including maintaining operating costs, controlling the cost of capital expenditures, and achieving operational efficiencies/financial targets. Still other 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.

These Company-wide goals serve as the foundation for the goals set for each individual employee. Thus, when an individual employee works with his/her supervisor to establish individual goals for the year, they are set by reference to how that employee's position can advance the overall goals of the Company. The employee's performance on individual goals accounts for approximately 70 percent of his or her overall evaluation. In addition to performance against individual goals, all employees are evaluated with reference to six performance factors. These performance factors 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. The employee's performance with respect to these factors accounts for approximately 30 percent of the employee's overall evaluation.

Q. Why is it reasonable to include incentive compensation as well as base compensation in rates?

A. First, the incentive compensation amount is a legitimate business expense and does not result in unreasonable compensation levels. By basing total compensation on market levels, the Company is using an objective and accepted industry standard. The total compensation amount does not become unreasonable simply because the Company separates the total compensation in two parts.

Second, incentive pay allows the Company to recruit and maintain a qualified labor force. If only the base compensation were included in rates, the compensation amount in rates would be significantly below competitive market levels, and the Company could not maintain and attract the workforce needed to provide safe and reliable service if it only compensated employees at that level.

Third, the goals upon which employee performance is assessed 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.

Fourth, the incentive plan has been deliberately structured to avoid two elements which regulators have identified as objectionable. One, payment of the incentive is not contingent upon the parent company (i.e., MidAmerican) achieving a trigger profit level. Two, there is no probability that there will be no payment at all under the Annual Incentive Plan, although the amount available for distribution in any year may be less than 100 percent of the level indicated by the market data. The absence of these two elements is in contrast to another incentive plan available to a few of the Company's highest performers, the Long-Term Incentive Plan. The costs of that plan are not included in rates.

Q. Please explain the level of incentive compensation that is included in this application.

A. Recognizing that the pool of incentive compensation made available for distribution was reduced below 100 percent of the indicated market level in 2009, 2010 and 2011, the Company is proposing in this case to apply a percentage to the market level reflecting the average of the last three full actual years (calendar years 2009 – 2011). As shown in the exhibit of Company witness Mr. McDougal (see page 4.2.6 of Exhibit RMP___(SRM-3), this application includes a request for total Company incentive compensation in the amount of $29.1 million ($20.6 million expense after capitalization). This amount is calculated using the pro forma wages in this case multiplied by a three-year average of the actual payment rate. The Utah portion of this expense is approximately $8.8 million.

Retirement Plans

Q. Please describe the Company's retirement plan.

A**.** The Company continues to strive to provide a competitive retirement plan offering while at the same time reducing the volatility in expense tied to retirement plans so as to benefit both the customer and employee. In doing so, the Company provides for non-represented employees hired prior to January 1, 2008, the ability to receive their retirement through either a cash balance or 401k only design. All non-represented employees hired post January 1, 2008, receive their retirement through the 401k design approach. Retirement plan benefits for represented employees are determined through the collective bargaining process, through which the Company has maintained its focus to shift the retirement approach from the traditional defined benefit to defined contribution (401k) approach.

Q. Are there increases in cost related to retirement program offerings?

A. Yes, the Company expects to see an increase of $8.8 million in pension expense during the test period versus actual expenses as of June 2011 for several reasons. The reasons for the PacifiCorp Retirement Plan ("PRP") differ from the reasons for the PacifiCorp/IBEW Local 57 Retirement Trust Fund ("Local 57").

For Local 57, the Company has recently reached a period where it is obligated to fund more than the negotiated amount in order to meet minimum funding standards as set forth in ERISA and the Internal Revenue Code ("additional required contributions"). The first additional required contribution of $0.1 million was due in April 2011. Thus the June 2011 historical expenses only includes $0.1 million for additional required contributions, whereas it is expected that the additional required contributions for the test year ending May 2013 will be significantly greater at $4.3 million. In the case of the union, funding contributions are the same as expenses to the Company.

For PRP, in addition to updating the census data to reflect actual demographic experience, the mortality table has been changed to project longer life expectancies. The most significant impact is due to the lower discount rate used to determine liabilities. The June 2011 level of expense is determined using the actual interest rates of 5.80 percent at December 31, 2009, for July to December 2010, and 5.35 percent at December 31, 2010, for January to June 2011. The discount rate assumed for 2012 and 2013 is 4.80 percent, based on where rates were at September 30, 2011. Finally, there is an increase in expense due to the assumption that the plan's assets will earn 0 percent during 2011, (greater than the actual returns through September 30, 2011) rather than the assumed long-term rate of return of 7.50 percent.

However, the Company is proactively managing benefit cost increases and their resulting impacts on customers through its actions to shift, as noted above, from a focus on defined benefit to defined contribution. Absent such actions by the Company, the increase would have been even greater.

Employee Health Benefits

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

A. As with all benefits, the Company attempts to provide employees with the same level of health care benefits that are provided by the employers with whom the Company competes for labor. In our case, this means offering employees what I would describe as market average health benefits. And, of course, the Company seeks 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 on the advice of its consultant, AON Hewitt, to ensure that it is securing market competitive benefits at the best possible rate. AON Hewitt are respected experts in their field and the Company has relied on them for many years. With the help of AON Hewitt, 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, which for 2012 will be set at 84/16. The Company continues to offer choice into other medical plans. However, except for a $300 deductible plan that is offered in rural areas, these plan choices are set at a cost sharing of 70/30. All new hires as of January 1, 2008, 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 manner that is fair and prudent for our customers.

Q. Please explain the level of healthcare costs 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 2008, 2009, 2010 and 2011 actual healthcare expenses totaled $52.0, $57.9, $57.9, and $61.8 million respectively. Consistent with this trend, the Company has included in this Application healthcare expenses on a total Company basis of $61.7 million ($43.6 million expense after capitalization), as shown in Exhibit RMP___(SRM-3). The Utah allocated share of healthcare expense is $18.7 million.

AONHewitt has informed the Company that current trends indicate the rates for the Company's health benefits are anticipated to increase further in 2012 by between 8 and 10 percent.

Q. Has the Company made changes to the retiree medical plan that affect the FAS 106 post retirement benefits other than pensions costs included in this case?

A. Yes. The Company implemented benefit design changes to the postretirement welfare plans that resulted in significant cost reductions of $13.1 million as shown in Exhibit RMP___(SRM-3), adjustment 4.2. These changes help to offset other areas of cost increases I have addressed to the benefit of customers.

Q. Please explain the changes.

A. Healthcare reform legislation is causing many employers, including PacifiCorp, to change their approach to retiree health care benefits. With recent changes to Medicare, individual plans have become more widely available and affordable. These changes, which were effective January 1, 2012, will not only provide a savings to the customers through reduced expense, but will also provide more flexibility to the retiree to choose from a variety of plan options so as to receive the coverage that works best for them. Instead of the monthly subsidy structure, the Company now will provide an annual contribution to a health reimbursement account that will then be managed by the retiree and used to pay for the care and services received.

Q. Does this conclude your direct testimony?

A. Yes.