

Rocky Mountain Power
Docket No. 13-035-184
Witness: Erich D. Wilson

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

Direct Testimony of Erich D. Wilson

Labor and Benefits

January 2014

1 **Q. Please state your name, business address and present position with**
2 **PacifiCorp dba Rocky Mountain Power (“the Company”).**

3 A. My name is Erich D. Wilson. My business address is 825 NE Multnomah Street,
4 Suite 1800, Portland, Oregon 97232. My present position is Director, Human
5 Resources.

6 **Qualifications**

7 **Q. Please briefly describe your education and business experience.**

8 A. I have been employed as the Director of Human Resources since March 2006.
9 From March 2001 to March 2006, I was the Director of Compensation for the
10 Company. Prior to coming to the Company, I held various positions within the
11 area of human resources (operations, benefits and staffing), but for the majority of
12 my career I have directed the design and administration of compensation
13 programs. I received a Bachelor’s degree in Economics (Business) from the
14 University of California, San Diego in 1992. In addition, I achieved the Certified
15 Compensation Professional status from the American Compensation Association
16 in 1999 and have kept this certification current by attending various educational
17 programs and seminars.

18 **Q. Please describe your present duties.**

19 A. My primary responsibilities include managing the Company’s Human Resources
20 departments including compensation, benefits, compliance, staffing, training and
21 development, employee and labor relations, and payroll. I focus on assisting the
22 Company in attracting, retaining, and motivating qualified employees, along with
23 the administration of all associated human resource programs and employee

24 experiences.

25 **Purpose and Overview of Testimony**

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

27 A. The purpose of my testimony is to provide an overview of the compensation and
28 benefit plans provided to employees at the Company and to support the costs
29 related to these areas included in the test period.

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

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

39 **Q. Please provide an overview of your testimony.**

40 A. This overview focuses on the total compensation plan (consisting of base pay and
41 annual incentive), pension plan and healthcare benefit plan. These plans are
42 designed to allow the Company to attract and retain the employee talent necessary
43 to deliver safe and reliable service at a reasonable cost. I also demonstrate that the
44 Company has prudently contained increases in labor costs since the last rate case
45 and, in particular, has kept increases in benefit costs at a reasonable level that
46 reflect the economic conditions and market.

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

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

53 Second, while it is important to keep compensation and benefit costs under
54 control, it is still critical for the Company to be able to retain, and attract
55 competent and qualified personnel to manage and operate the system. To do so,
56 the Company continues to ensure that its wage levels are aligned with the
57 practices of the labor market. The market continues to see a shift in having
58 employees bear more of the costs of benefits. The Company continues to shift the
59 cost sharing and cost of benefit plans to its employees and facilitate adjustments
60 to plan design to align with current market practices.

61 **Total Compensation**

62 **Q. What is the Company's compensation philosophy?**

63 A. Two fundamental principles underlie the Company's compensation philosophy.
64 First, the Company's primary goal in determining employee compensation is to
65 provide pay at or near the market average. Competitive compensation is critical to
66 attracting and retaining qualified employees. The market for the skilled positions
67 required to manage and operate a utility system is extremely competitive. Thus,
68 the Company endeavors to provide the same general pay levels and benefits in its
69 total compensation package as are included in the packages provided by others in

70 the industry. The Company believes that providing total compensation at or near
71 market levels results in reasonable total compensation costs.

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

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

79 A. Each of the Company's positions has been assigned a grade within the Company's
80 overall salary structure. At least annually, the Company collects market data for
81 comparable positions and calculates the average data point for total compensation
82 for each grade. Market data is provided through a variety of compensation studies
83 produced by experts/organizations, including AON Hewitt, Towers Watson, and
84 Mercer. In addition, the Company uses an on-line tool "MarketPay.com."
85 MarketPay.com provides electronic access to all of the compensation studies we
86 have traditionally used and some additional surveys, allowing us to more
87 efficiently perform information searches and job and pay comparisons.

88 After the Company determines the appropriate level of total compensation
89 for a specific grade, it then determines the "at risk" portion of the compensation
90 for each grade. The Company sets the "at risk" portion by reviewing market
91 compensation using the various compensation studies described above. The "at
92 risk" portion is typically in the 10-25 percent range; however, incentive pay for a

93 few employees is set as high as 75 percent. Generally speaking, the higher the
94 position is within the Company, the higher the amount of pay at risk and thus the
95 higher the percentage of potential incentive pay. The “at risk” portion of
96 compensation (i.e., “incentive compensation”) is administered through the Annual
97 Incentive Plan.

98 The remaining percentage of total compensation which is not at risk is
99 referred to as “base compensation.”

100 **Annual Incentive Plan**

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

102 A. The objective of the Annual Incentive Plan is to provide each non-represented
103 employee with incentive to perform at an above-average level. The plan is not a
104 bonus; additional (i.e., incentive) compensation is not layered upon base
105 compensation that is already at market levels for total compensation. Through the
106 process I discussed above, base compensation for each position is set at a level
107 below the market level for total compensation for that position. Only if an
108 employee performs at an acceptable level for the position will the employee have
109 an opportunity to earn total compensation at or near comparable positions in the
110 market.

111 **Q. Is incentive compensation a greater benefit to customers than compensation**
112 **consisting solely of base compensation?**

113 A. Yes. In the Company’s experience, a higher level of overall employee
114 performance is achieved when a portion of pay is “at risk.” In addition, the
115 Company’s incentive compensation plan enables the Company to attract and

116 retain talented employees in the increasingly competitive market for skilled labor.
117 Therefore, while the total cost of the Company's base plus incentive
118 compensation program is equal to what a salary-only plan would be, the benefit to
119 customers is greater.

120 **Q. How is the incentive compensation plan implemented?**

121 A. First, before the distribution of the "at risk" compensation dollars, senior
122 Company management assesses the Company's achievement of certain critical
123 business goals such as safety, customer satisfaction, and managing expenses in
124 relation to revenues. Underperformance by the Company in satisfying critical
125 business goals may result in a downward adjustment of the total pool of "at risk"
126 dollars available for distribution to all Company personnel. For example, the
127 Company's underperformance in satisfying one or more of these goals resulted in
128 reduction in the total amount of incentive compensation available for distribution
129 to 85 percent in both 2009 and 2010, 87 percent in 2011, and 85 percent in 2012.
130 In 2013, based on the performance level, the award was reflective of a 100
131 percent target award.

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

137 Then, after the total pool of "at risk" compensation available for
138 distribution has been determined by senior management, supervisors are informed

139 of the amount of incentive compensation available for distribution within their
140 group. Based on this information, each supervisor submits the recommended
141 incentive payments for each employee in their group to Human Resources for
142 review and consistency.

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

145 A. Each year, the Company's senior management, in conjunction with MidAmerican
146 Energy Holdings Company, set the overall goals for the Company. All of these
147 goals focus on delivering safe and reliable electricity to our customers and
148 providing excellent customer service. Goals include safety goals such as reducing
149 lost time, recordable, preventable, and restricted duty incidents. Customer service
150 goals include implementing local and regional customer service improvements,
151 improving visibility and relations with industrial customers and consumer
152 associations, and improving overall customer satisfaction. Other goals relate to
153 operating within established budgets, including maintaining operating costs,
154 controlling the cost of capital expenditures, and achieving operational
155 efficiencies/financial targets. Still other goals relate to operational performance,
156 major project delivery, organizational planning and development, and quality of
157 service and regulatory commitments. The achievement of each and every one of
158 these goals will serve to benefit our customers.

159 These Company-wide goals serve as the foundation for the goals set for
160 each individual employee. Thus, when an individual employee works with his/her
161 supervisor to establish individual goals for the year, they are set by reference to

162 how that employee's position can advance the overall goals of the Company. The
163 employee's performance on individual goals accounts for approximately 70
164 percent of his or her overall evaluation. In addition to performance against
165 individual goals, all employees are evaluated with reference to six performance
166 factors. These performance factors describe the characteristics the Company
167 believes are important to the success of all employees, *i.e.*, customer focus, job
168 knowledge, planning and decision making, productivity, builds relationships and
169 leadership. The employee's performance with respect to these factors accounts for
170 approximately 30 percent of the employee's overall evaluation.

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

173 A. First, the incentive compensation amount is a necessary part of total market value
174 compensation. Hence, it is a legitimate business expense and does not result in
175 unreasonable compensation levels. By basing total compensation on market
176 levels, the Company is using an objective and accepted industry standard. The
177 total compensation amount does not become unreasonable simply because the
178 Company separates the total compensation in two parts.

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

184 Third, the goals upon which employee performance is assessed are designed to

185 encourage superior performance on the part of our employees to pursue the goals
186 that directly benefit our customers-safety, reliability, and customer service. This is
187 precisely the type of prudently designed incentive plan program that provides
188 direct benefits to customers and which customers should therefore support.
189 Fourth, the incentive plan has been deliberately structured to avoid two elements
190 which regulators have identified as objectionable. One, payment of the incentive
191 is not contingent upon the parent company (i.e., MidAmerican) achieving a
192 trigger profit level. Two, there is no probability that there will be no payment at
193 all under the Annual Incentive Plan, although the amount available for
194 distribution in any year may be less than 100 percent of the level indicated by the
195 market data. The absence of these two elements is in contrast to another incentive
196 plan available to a few of the Company's highest performers, the Long-Term
197 Incentive Plan. The costs of that plan are not included in rates.

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

200 A. Recognizing that the pool of incentive compensation made available for
201 distribution was reduced below 100 percent of the indicated market level in 2011
202 and 2012, the Company is proposing in this case to apply a percentage to the
203 market level reflecting the average of the last three full actual years (calendar
204 years 2011-2013). As shown in the exhibit of Company witness Mr. Steven R.
205 McDougal (see Exhibit RMP____(SRM-3)), this application includes a request for
206 total Company incentive compensation in the amount of \$31.4 million (\$22.3
207 million expense after capitalization). This amount is calculated using the pro

208 forma wages in this case multiplied by a three-year average of the actual payment
209 rate. The Utah portion of this expense is approximately \$9.5 million.

210 **Retirement Plans**

211 **Q. Please describe the Company's retirement plan.**

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

223 **Employee Health Benefits**

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

225 A. As with all benefits, the Company attempts to provide employees with the same
226 level of health care benefits that are provided by the employers with whom the
227 Company competes for labor. In our case, this means offering employees what I
228 would describe as market average health benefits. And, of course, the Company
229 seeks to provide these benefits as economically as possible.

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

232 A. The Company relies on the advice of its consultant, AON Hewitt, to ensure that it
233 is securing market competitive benefits at the best possible rate. AON Hewitt are
234 respected experts in their field and the Company has relied on them for many
235 years. With the help of AON Hewitt, the Company periodically reviews and
236 adjusts the sharing of healthcare-related costs with employees in an effort to
237 stabilize cost, manage volatility, and respond to changing market practices.

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

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

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

244 A. Yes. Beginning in 2008 the Company made adjustments to the cost sharing and
245 plan design to reduce costs and to align with market practices. In particular, the
246 Company established a base medical plan with a high deductible and a cost
247 sharing of 90/10, which in 2013 was set at 81/19 percent. The Company continues
248 to evaluate its plans and design and on January 1, 2014, will only offer the high
249 deductible plan (Health Savings Account) as the medical plan, with the exception
250 of Kaiser in limited markets.

251 **Q. What is the Company's rationale for sharing healthcare-related costs with**
252 **employees?**

253 A. This structural and design shifts adhere to the Company's goal of providing
254 competitive benefits to its employees, while doing so in a manner that is fair and
255 prudent for our customers.

256 **Q. Please explain the level of healthcare costs included in this application and**
257 **compare that to previous fiscal year expenses.**

258 A. Healthcare cost have remained a significant expense and one with a high degree
259 of volatility. For calendar years 2010, 2011, 2012 and 12 months ended June 2013
260 actual healthcare expenses totaled \$59.7, \$63.8, \$62.4, and \$61.0 million
261 respectively. The Company has included in this Application healthcare expenses
262 on a total Company basis of \$65.4 million (\$46.4 million expense after
263 capitalization), as shown in Exhibit RMP___(SRM-3). The Utah allocated share
264 of healthcare expense is \$19.7 million.

265 AON Hewitt has informed the Company that current trends indicate the
266 rates for the Company's health benefits are anticipated to increase further in 2014
267 and 2015 by between eight and 10 percent.

268 **Q. Does this conclude your direct testimony?**

269 A. Yes