Q. Are you the same Erich D. Wilson who submitted direct testimony in this proceeding on behalf of PacifiCorp dba Rocky Mountain Power (the "Company")?

A. Yes.

Purpose of Rebuttal Testimony

Q. What is the purpose of your rebuttal testimony in this proceeding?

A. The purpose of my rebuttal testimony is to address certain labor-related adjustments proposed by Division of Public Utilities ("DPU") witness Ms. Clair Oman, Utah Association of Energy Users ("UAE") witness Mr. Kevin C. Higgins and Office of Consumer Services ("OCS") witness Ms. Donna Ramas. Specifically, I demonstrate:

- The Annual Incentive Plan ("AIP") expense is reasonable and should be recovered in rates. It is consistent with the competitive market in which the Company competes for labor, and has been approved by the Commission in prior proceedings.
- The reduction in workforce adjustments are not appropriate.
- The pension expense as filed is both known and measurable and, as such, the Commission should reject the adjustments recommended by the OCS because they are unsupported.
- Post retirement expense as filed is both known and measureable. The OCS's recommendation is speculative and should therefore be rejected by the Commission.

Finally, the Company accepts the adjustments recommended by (1) OCS to the 401K administration expense, (2) UAE on the test period pension expense and the test period post retirement expense, and (3) OCS on the employee severance expense, although the Company reserves the option to include severance in future filings where appropriate.

Compensation Philosophy and Background

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

A. The Company's primary objective in establishing employee compensation levels 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.

To encourage superior performance, the Company places a certain percentage of each employee's market compensation "at risk." The Company's AIP 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 pay may be above the targeted level; in low performance years, it may be below the targeted level. On average, however, the incentive is generally at or near the targeted (or "guideline") level.

If an employee 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. While certain employees may be paid more than or less than market levels in a given year as a result of the incentive portion of compensation, on an overall basis, employee base compensation and incentives are structured to result in a level of compensation commensurate with the market.

Q. Has the Company's general compensation philosophy and approach changed in any material way since the time of the Commission's last decision?

A. No. Since Berkshire Hathaway Energy acquired PacifiCorp in 2006, PacifiCorp's compensation philosophy and approach have remained constant.

Q. Has the Company proposed including in rates costs related to its Long-Term Incentive Plan ("LTIP")?

A. No. The Company's LTIP is a separate plan for executives that awards compensation based on overall corporate performance, including revenues and net income. The Company does not ask customers to absorb the costs associated with that plan, and these costs are not included in this case.

Annual Incentive Plan ("AIP")

Q. Please describe DPU's proposed adjustment to the incentive plan levels set in this filing.

A. The DPU proposes using a four-year average of the annual incentive awards as the proxy for the expense in this rate case filing. The DPU then argues that the scoring of the AIP and safety award program that is in place is duplicative. The DPU further states that the Company has been unresponsive to data requests and justifies its adjustment by arguing that the individual performance scoring for all participants is needed to determine a more precise position.

Q. Do you agree with the DPU's proposed adjustment?

A. No. The AIP is already normalized with prior years in the Company's filing on Page 4.2.6 of Exhibit RMP___(SRM-3). Further normalizing by reducing the payout percentage is not appropriate and unjustified. The Company paid out at 100 percent in 2013 and this amount figures into the normalization calculation made by the Company. The DPU also erroneously attempts to combine the safety award program with the AIP portion of compensation.

The AIP is part of an overall compensation package that is set at competitive market levels. This enables the hiring and retention of the talent necessary to provide high-quality, reliable service to our customers. PacifiCorp sets the annual base wage adjustments and corresponding adjustment to AIP based upon annual review of the compensation levels provided by those in the labor markets in which it competes. These compensation levels are driven by the economy and the associated impacts of all companies in our competitive market. The AIP is a critical piece of compensation that allows PacifiCorp employees the opportunity for their overall compensation to reach competitive market levels. Overall, this compensation package is reasonable and benefits ratepayers by encouraging superior employee performance. The Commission has approved this approach in the past and should do so again[1]. The Safety award program that was initiated in 2012 provides for a distinct focus on improving employee safety performance and is a focus of all employees, in contrast to the AIP which is a component of compensation for the non-union workforce. In addition, where safety is a performance goal measured on an individual basis for the AIP, it is based on how an employee undertakes his/her tasks, how he/she demonstrates preventive

[1] See In the Matter of the Application of Rocky Mountain Power for Authority to Increase its Retail Electric Utility Service Rates in Utah and for Approval of its Proposed Electric Service Schedules and Electric Service Regulations, Consisting of a General Rate Increase of Approximately $161.2 Million Per Year, and for Approval of a New Large Load Surcharge, Report and Order on Revenue Requirement, August 11, 2008.

measures and participates in awareness programs, for example. This is in contrast to the metric used to determine the safety incentive award which is based on reductions in overall incidents.

The Company has completely complied with and been responsive to all data requests and has provided detailed performance results and awards for the safety award program years 2012 and 2013 as well as the goals and award criteria for 2014. The Company's 2013 incident rate was the best the Company has ever had, resulting in fewer damages to equipment and higher employee productivity, among other ancillary benefits.

Employee Reductions

Q. Please explain Ms. Ramas' adjustment to reflect the impact of employee reductions on labor costs.

A. Ms. Ramas compares the full-time equivalent employee level at January, 2014 to the average full-time equivalent level during the base period of the filing. The percentage decrease in number of employees from the base period average to the January level is multiplied by the labor costs that are impacted by the level of employees. She is proposing the result of this calculation be removed from the filing.

Q. Do you agree with this adjustment?

A. No. While it is true that the number of employees temporarily decreased during the months referenced by Ms. Ramas, it is the Company's intent to replace these vacancies and is actively doing so through its staffing organization. Data Response OCS 4.4 indeed stated that "There are no plans to increase or decrease the current full-time equivalent (“FTE”) level in the organization." However, the response to OCS 4.4 was in reference to the full-time equivalent level which is the budgeted level, not the actual number at any given point in time, like January, 2014. The budgeted number of employees at July 2014, the first month in the test period, is 5,500. This is 166 employees higher than the level at January, 2014, the level used in Ms. Ramas' adjustment.

Q. Was the Company trying to re-staff in January, 2014, the low period in question?

A. Yes. As of the end of January 2014, the Company was actively recruiting for these vacancies.

Q. If the Company is unable to fill positions, will the expense level go down correspondingly?

A. No. The amount of work and ultimately the dollars required to complete the work is not dependent on the number of FTE employees. When sufficient internal resources are not available to complete all work plan requirements, external resources are utilized to complete required work activities. If the revenue requirement is reduced for assumed reductions in employee levels, the Company would require a corresponding adjustment to increase non-labor expense. The amount of work required to be completed has not decreased.

Wage and Benefit Expense

Q. Please explain Mr. Higgins' adjustment to wages and benefits expense.

A. Mr. Higgins divides the wage and benefit expense in the filing by the number of employees at June 2013 to get an average wage and benefit expense per employee.

He then multiplies this average wage and benefit per employee by the reduction in employees due to the closure of Carbon plant to get the reduction in wages and benefits due to the Carbon closure. He also multiplies this average wage and benefit per employee by the reduction in employees from June 2013 to January 2014, excluding those due to the Little Mountain closure that are accounted for elsewhere in the filing, and excluding the reductions due to the closure of the Carbon plant.

Q. Do you agree with Mr. Higgins' adjustment?

A. The portion that relates to the Carbon plant closure has some merit. The Company is willing to accept Mr. Higgins' Carbon Labor adjustment, assuming it gets full recovery of the Carbon costs prior to retirement through a mechanism, as discussed in Mr. Steven R. McDougal's testimony.

Q. Do you agree with the portion of Mr. Higgins' adjustment that relates to employee reductions excluding Little Mountain and Carbon Plant?

A. No. I disagree with this portion for the same reasons I disagree with Ms. Ramas' Employee Reductions adjustment.

Severance

Q. Please describe the Office of Consumer Services proposed adjustment to severance expense and the corresponding impact.

A. OCS contends that $337,750 in severance expense was carried forward into the test year. This expense appears to be based on actions taken by the Company in the latter part of 2012. Apparently, in filing requirement R746-700-22.D.19, the Company reflected $65,488 in expense through June 2012, which appears to be inconsistent with the $337,750. OCS recommends that the Commission reduce the requested amount by that which is capitalized and allocated to non-utility, thereby setting the supported expense at $101,779 on a Utah basis.

Q. Do you agree with the Office of Consumer Services proposed adjustment?

A. Yes, the Company agrees to remove severance expense from the filing. However, it reserves the option to include severance expense in future filings. In addition, removing severance pay reduces payroll taxes. The full reduction is reflected in Mr. McDougal's Exhibit RMP___(SRM-2R)

401(k) Administration

Q. Please describe the Office of Consumer Services proposed adjustment to 401(k) administration expense levels and the corresponding impact on expense.

A. OCS contends that the amount of 401(k) expense recorded during the base year is not reflective of a typical annual expense level for the 401(k) and therefore recommends that a three-year average ending June 2013 be used in determining the supported expense. This would set the expense level at $74,533 on a Utah basis.

Q. Do you agree with the Office of Consumer Services proposed adjustment?

A. Yes. The adjustment is reflected in Mr. McDougal's Exhibit RMP___(SRM-2R).

Pension Expense

Q. Please describe OCS's proposed adjustment to pension expense levels and the corresponding impact.

A. OCS recommends that the pension cost be reduced by the amount of the reduction in the projected 2014 net periodic benefit costs. The 2014 expense, post the filing, as provided by Towers Watson demonstrates a decline of approximately $1.6

million (net of capitalization and joint ventures) from the Company's filing. The OCS recommends a $668,102 reduction in test year expense on a Utah basis.

Q. Do you agree with OCS's proposed adjustment?

A. No. As more fully discussed in my direct testimony, the Company's test year expense is an average of 2014 and 2015 expense to reflect the test period. As neither actual 2014 or 2015 expense levels were known at the time of the Company's filing, the Company used a projection developed by its actuaries for the 2014 and 2015 expenses. We now know the actual 2014 expense and it is approximately $1.6 million less than projected. The actual 2014 expense is lower than the projection due to the favorable effects of the actual 2013 asset return, claims experience and other items.

Ms. Ramas is speculating that the factors which led to the reduction in 2014 expense will continue during 2014 and through 2015, and in turn reduces 2015 expense. However, the actual 2014 expense was lower than the projection due to strong 2013 investment returns (21 percent during 2013) which are highly unlikely to reoccur in 2014 (i.e., year to date performance through April 2014 was 0.4 percent).

Q. Please describe UAE's proposed adjustment to pension expense levels and the corresponding impact.

A. UAE proposes that the test year level of FAS 87 pension expense be adjusted to reflect RMP's actual 2014 plan expense. As I noted above, RMP's actual 2014 expense is lower due to the favorable effect of the actual 2013 asset returns and claims experience that were finalized subsequent to the Company's filing in this case.

Q. Do you agree with UAE's proposed adjustment?

A. Yes. The position taken by UAE accurately captures the decrease in 2014 pension expense. The Company has reduced its pension expense by $213,717 on a Utah basis to reflect the reduced pension expense in its rebuttal case, as shown in Mr. McDougal's Exhibit RMP___(SRM-2R).

Post Retirement Expense

Q. Please describe UAE's proposed adjustment to post retirement expense and the corresponding impact.

A. UAE recommends adjusting the Company's proposed FAS 106 post retirement expense. UAE adjusts the FAS 106 post retirement expense to ($1.3m) compared to the ($0.5m) in the filing.

Q. Do you agree with UAE's proposed adjustment?

A. Yes. UAE witness Mr. Higgins has correctly adjusted test period expense by the amount of the reduction to 2014 projected expense. The Company has reduced its post retirement expense by $122,869 on a Utah basis to reflect the reduced expense in its rebuttal case, as shown in Mr. McDougal's Exhibit RMP___(SRM-2R).

Q. Do you agree with Mr. Higgins' statement that the Commission should direct

the Company that in future rate cases all requests to its actuaries to update pension expense projections should extend through the entirety of the test period that forms the basis of the revenue requirement the Company is seeking?

A. No. Actuarial updates are occasionally made for accounting purposes. The Company will share any updates that have been made. However, it is burdensome and costly to require the Company to engage the actuary to make actuarial updates of all periods specifically for intervenors in rate proceedings.

Q. Please describe OCS's proposed adjustment to post retirement expense and the corresponding impact.

A. OCS recommends that the post retirement expense be adjusted to reflect the 2014 actuarial valuation report which shows $1,907,744 lower than the Company's filing. Using the 2014 information, OCS proposes pension net periodic benefit income be increased by $338,268, net of joint ventures, reducing the expense from the Company's filing by $101,935 on a Utah basis.

Q. Do you agree with OCS's proposed adjustment?

A. No. OCS witness Ms. Ramas again appears to want the end to justify the means. She erroneously assumes and claims the favorable 2013 asset returns will be the same during 2014. This speculation leads to an assumption that 2015 expense will decrease by the same amount as 2014 did. For the same reasons, the Commission should reject her adjustment to post retirement expense.

Bonuses and Awards

Q. Please describe Federal Executive Agencies ("FEA") witness Mr. Greg R.

Meyers' adjustment regarding Bonuses and Awards.

A. Mr. Meyers proposes complete elimination of Bonuses and Awards from the filing. He cites as reasons that there is no set criteria or plan documentation and it appears to be in addition to AIP compensation. He states these costs are completely at management's discretion and do not reflect any level of certainty that they will exist on a recurring basis.

Q. Do you agree with the adjustment proposed by Mr. Meyers disallowing Bonuses and Awards?

A. No. These programs are certainly recurring and have previously been supported by this Commission. There are no current plans to eliminate these programs as they enable the Company to attract and retain talent by recognizing and rewarding for performance that supports the business and our customers. More than half of these costs are for safety awards for employees. Safety of employees and the public is extremely important. The next major category of these costs is for employee recognition awards for situations during the year when they have exhibited exemplary performance above and beyond their core job responsibilities. Hire-in compensation is included in situations where a desired skill set is sought and required for the business to meet its operational objectives.

Recommendation and Conclusion

Q. What is your recommendation to the Commission?

A. I recommend that the Commission reject the DPU's and FEA's proposed adjustments to AIP, as well as FEA's adjustment pertaining to Bonuses and Awards. PacifiCorp's compensation approach has been supported by the jurisdictions in which it operates, including Utah. The Commission should continue to support this approach. The Commission should reject the OCS's adjustments pertaining to Workforce Reductions, Pension Expense, and Post-retirement Expense as well as UAE's adjustment pertaining to Workforce Reductions. The Company accepts the adjustments recommended by OCS pertaining to Severance Expense and 401k Administration Expense, as well as UAE’s position on Pension Expense and Post-retirement Expense.

Q. Does this conclude your rebuttal testimony?

A. Yes.