Q. Please state your name, business address and present position with PacifiCorp (the Company).

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 of Compensation.

Qualifications

Q. Briefly describe your education and business experience.

A. I have been employed as the Director of Compensation since March 2001 in the Human Resources Department. Prior to coming to PacifiCorp, I held various positions within Human Resources (Operations, Benefits and Staffing); but for the majority of my career I have been directing 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 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. Briefly describe your current duties.

A. My primary responsibilities are to ensure that the Company attracts, retains and motivates qualified employees. To this end, I am responsible for overseeing the design and administration of the Company's compensation programs including: base salary, short and long term incentives, international compensation, relocation and performance management. This involves analyzing competitive pay practices, establishing and administering pay programs which will allow the Company to compete successfully for labor, motivate employees to perform at the highest levels, reward them for such performance, and retain qualified and strong performing employees.

Purpose of Testimony

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to rebut adjustments proposed by DPU witness Mary Cleveland, AARP witness Ronald Binz and CCS witness Helmuth Schultz that would reduce the amount of incentive compensation expense included in PacifiCorp’s revenue requirement in this proceeding. I also respond to issues raised by UAE witness Dr. Richard Anderson with respect to substantiation of the Company's proposed wage increases.

Q. As background for your rebuttal, would you please briefly describe PacifiCorp’s compensation philosophy and approach, and the related Annual and Long Term Incentive Compensation Plan programs?

A. Yes. In order to attract, motivate, develop and retain a highly qualified workforce, the Company’s philosophy is to provide total remuneration which is equal to the average remuneration provided by our competitors for labor when performance is at desired levels. When performance is less than desired, employees should make less than the average remuneration and when performance is better than desired levels, employees should earn slightly more than average remuneration. The Company’s objective is to generally provide the same components in our total remuneration package that are included in the packages provided by our competitors for labor.

Q. How does the Company set base salaries for each job?

A. At least annually, the Company collects market data for comparable jobs and we calculate the average data point for total cash compensation. Total cash compensation includes both the base salary and the incentive provided to employees. Average competitive compensation establishes the total amount that an employee performing that job at PacifiCorp should earn from both base salary and guideline incentive**.**

Q. Please describe the Company's Annual Incentive Plan (AIP) program.

A. The Company's annual incentive program is intended to put some of the competitive total remuneration "at risk". The portion of pay "at risk" is the guideline (or target) incentive percentage assigned to the job. Job classifications may earn up two times the guideline incentive. This upside opportunity provides the employee with a potential benefit to offset the risk associated with incentive compensation and provides the Company with a tool to encourage exceptional performance. In exceptional performance years, the incentive may be up to two times the guideline, but on average, the incentive is generally very near 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.

Q. How is the plan structured?

A. Each employee has a set maximum incentive level which is based on a two times multiple of target (as set by competitive market data). The award structure is based on the following weighting:

- 10 percent maximum based on performance against defined objectives of the PacifiCorp scorecard;
- 30 percent of maximum based on performance against defined objectives of the appropriate business unit scorecard; and
- 60 percent of maximum based on individual performance.

Q. Please describe the Company's Long Term Incentive Plan.

A. The Long Term Plan is an award of Restricted Stock that is granted on an annual basis and carries a three-year vesting schedule. The Plan is structured in a similar way to the Annual Incentive Plan and is focused on delivery of excellent utility performance. The overall award level is determined based on annual performance. Unlike prior Company Long Term Incentive Plans, awards under this program are not exclusively based on financial factors. Indeed, only up to 10 percent of awards under this plan are based on financial factors.

Q. Do you have any other comments on the design of these plans?

A. Based on previous Commission decisions that the plans were too focused on incentivizing financial performance, the Company reviewed these plans to significantly change the focus of these plans to deliver operational excellence that would benefit our customers. As a result, only up to 10 percent of the payout under these plans reflects the achievement of PacifiCorp financial goals.

Q. What level of assumptions did you make with regards to payment levels of these plans?

A. Based on the performance of these plans over the past three years, which averaged 79 percent payout, I assumed a payout of 70 percent. This was based on including a deduction for the financial elements of the incentive plans, which, consistent with prior Commission decisions, will be funded by shareholders.

DPU Adjustment

Q. What adjustment does Ms. Cleveland propose to make to PacifiCorp's test year incentive compensation expense?

A. Apparently, Ms. Cleveland has not proposed an adjustment specific to the PacifiCorp Long-Term incentive compensation plan (LTIP). However, in her discussion of the ScottishPower cross-charge, she makes a confusing or misleading statement about PacifiCorp LTIP that I will address. Mr. Jeffrey K. Larsen will address the ScottishPower cross-charge issues raised in Ms. Cleveland's testimony.

Q. What statement did Ms. Cleveland make with respect to LTIP that is confusing or misleading?

A. Ms. Cleveland testified that "PacifiCorp's LTIP has not been allowed in rates and the Company has not requested recovery of LTIP in the current docket." (Page 6, lines 20-21). The statement is incorrect. First, the Company has requested recovery of Long Term Incentive Plan expense in this case. Second, as I previously mentioned, the structure of the Long Term Incentive Plan has significantly changed from that previously presented to the Commission and therefore, that past precedent should not control the Commission's determination of the issue in this proceeding. In its Order in Docket No. 97-035-01, the Commission excluded the expense of the Company's old Long Term Incentive Plan because awards under that plan were driven by financial measures the

Commission had previously found inappropriate for rate recovery, including measures such as earnings per share and stock value. In response to that Commission direction, we have now modified our Long Term Incentive Program. Awards under the program are no longer driven by financial performance. Under the current Long Term Incentive Program, only up to 10 percent of the awards are based on financial performance and, as I have previously mentioned, the amount sought in this case for Incentive Program expense, including Long Term Incentive Plan expense, has already been reduced to eliminate financial performance awards. As a result, there is no basis for continuing to prohibit recovery of the expense.

Q. After reviewing Ms. Cleveland's testimony on incentive compensation in general, do you have any other areas you wish to clarify?

A. Yes. There is apparently some confusion regarding the relationship between the target and the maximum award. Ms. Cleveland states that the Total PacifiCorp component is 10 percent of the target. This is incorrect; the Total PacifiCorp component is up to 10 percent of the maximum award, which is two times the target.

Q. Do you agree with Ms. Cleveland's testimony that the PacifiCorp's Annual Incentive Plan expense should be adjusted by reducing the target level to 50 percent from 70 percent of maximum award?

A. No. While Ms. Cleveland correctly states that the market competitive level of incentive is 50 percent of the maximum award, she fails to reflect what the reasonable level of those expenses is expected to be in the test period. As I stated earlier, employee performance under these plans over the past three years resulted in an average payout of 79 percent. Based on those results, the Company has projected, after making an adjustment to remove financial elements, a payout of 70 percent during the test period. Ms. Cleveland has made no attempt to address the reasonableness of that projection. She has merely determined that employees should, no matter, what their level of performance, be capped at the 50 percent level.

Q. Do you agree with Ms. Cleveland's proposal to reduce incentive plan expense for financial goals and other objectives she describes as "lobbying and image building"?

A. No. As I already mentioned, PacifiCorp's request in this case has already been reduced by 10 percent or $5.5 million to eliminate incentive expense based on financial goals. That reduction reflects the fact that ninety percent of the incentive expense (30 percent business unit and 60 percent individual performance) is based on line of sight goals, with the emphasis being on improving operations and efficiency. The remaining 10 percent, which has already been eliminated from our request in this case, is based on the performance objective of PacifiCorp's scorecard that is tied to financial targets. As a result, Ms. Cleveland's proposal to further adjust incentive compensation for financial goals is not only duplicative and unnecessary, it is punitive. As justification for her lobbying and image building adjustment, Ms. Cleveland cites one department, Regulation & External Affairs. However, Ms. Cleveland fails to identify that the Employee Costs and Incentive Compensation for the Government Affairs employees in Regulation & External Affairs are actually charged “below the line” and their activities are not funded by customers.

AARP Adjustment

Q. Do you agree with Mr. Binz’s testimony where he proposes that the Commission exclude in rates that portion of the incentive plan that is related to corporate performance?

A. No. As I discussed above, the Company has already eliminated the portion of the incentive plan tied to company financial performance. Mr. Binz’ proposal would remove the portion of the incentive plan which is tied to factors that have been allowed for recovery in previous cases.

CCS Adjustment

Q. Mr. Schultz, citing five reasons, proposes a revised incentive compensation expense that reduces by 50 percent that which is being requested. Do you agree with this approach?

A. No, I don’t agree with Mr. Schultz’s points. I will take each point independently:

Point 1 – “PacifiCorp’s incentive compensation plan includes financial objectives that, in the past, have been excluded from ratemaking”. As I stated above, we have already excluded the portion of the incentive compensation plan expense tied to financial objectives.

Point 2 – “A number of the incentive plan objectives are to complete work-related tasks that should be expected, or are required as a normal course of work and, therefore, do not represent achievement beyond the expected performance”. Although some of these tasks may be seen by Mr. Schultz as “normal course work", they are our focus and are intended to drive improvements which can be seen and realized by our customers. These are also the type of objectives that the Commission has allowed in previous cases.

Point 3 – "PacifiCorp has provided the scorecards used to evaluate incentive compensation. Of the 14 scorecards provided for 2005, all but one scorecard includes a rate case objective". What Mr. Schultz fails to mention is that not all elements of a scorecard are linked to incentive awards. Only five of those scorecards have the rate case objective tied to an annual incentive award and these specific rate case objectives are based on improving the actual rate case process not the financial returns from a rate case. As an example, the Regulation Scorecard includes an incentive element that is related to improvement in rate case processes. While there is also a Scorecard Measure that reviews the financial recovery of rate cases, no incentive payments are linked to this.

Point 4 – "The incentive amount included is 70 percent of the maximum potential amount, which means the estimate exceeds target levels allegedly required to make compensation competitive at the expense of the ratepayers". Our position for putting forward 70 percent of maximum is based on past strong performance of delivering operational and customer performance which corresponds to award levels at the 70 percent of maximum level. As mentioned previously, this level is conservative and removes those components that link to financial objectives.

Point 5 – "The Company does not view incentive compensation as extra compensation and/or totally at risk, but rather a means to bring employee pay to a comparable level in the marketplace". This statement is not true. PacifiCorp does view incentive compensation as pay at risk. Our overall pay philosophy is a blend between base and at risk pay by targeting pay at total cash competitive levels. Risk is assumed and upside is also included (the two times target) to incentivize the desired performance levels.

Q. Do you agree with Mr. Anderson's testimony where he states wage increases should not be accepted unless they are substantiated?

A. Yes, I agree with Mr Anderson. PacifiCorp conducts an annual assessment of market practices for merit increases. Based upon third party data, merit levels are set to align to the market. Attached as supporting documentation is Exhibit UP&L ___(EDW-1R) which shows market and PacifiCorp actual merit over the last 10 years. This exhibit shows that the requested level of wage increase is supported by market practice.

Q. Does this conclude your rebuttal testimony?

A. Yes.