

Docket No. 20000-__-ER-11
Witness: Erich D. Wilson

BEFORE THE WYOMING PUBLIC SERVICE
COMMISSION

ROCKY MOUNTAIN POWER

Direct Testimony of Erich D. Wilson

December 2011

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 N.E. 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 log 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 resource
20 function, 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

1 experiences.

2 **Purpose and Overview of Testimony**

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

4 A. The purpose of my testimony is to provide an overview of the compensation and
5 benefit plans provided to employees at the Company and to support the costs
6 related to these areas included in the test period. This overview focuses on the
7 total compensation plan (consisting of base pay and annual incentive), pension
8 plan and healthcare benefit plan. These plans are designed to allow the Company
9 to attract and retain the employee talent necessary to deliver safe and reliable
10 service at a reasonable cost. I also demonstrate that the Company has prudently
11 contained increases in labor costs since the last rate case and, in particular, has
12 kept increases in benefit costs at a reasonable level that reflects the economic
13 conditions and market.

14 **Q. How do the total labor costs in this case compare to the Company's last
15 general rate case, Docket No. 20000-384-ER-10 ("2010 general rate case")?**

16 A. The current total labor costs have remained relatively flat from calendar year 2010
17 to calendar year 2011, reflecting both economic conditions and the Company's
18 successful efforts to control expenses. The table below shows that the total wage
19 and benefit expense in this case for the test year ending March 2013 will increase
20 approximately 3.2 percent compared to expenses for calendar year 2011 included
21 in the Company's rebuttal case in the 2010 General rate case (on a total Company
22 basis). On a dollar per megawatt-hour basis, wages and benefits have increased
23 slightly more attributable to a reduction in projected system load. Total labor

1 expenses included in the settlement in the 2010 general rate case are also shown
 2 below for reference, but those costs were only settled upon in conjunction with all
 3 other settlement issues.

	Current Case March 2013	20000-384-ER-10 Rebuttal December 2011	Change	20000-384-ER-10 Settlement December 2011
Wage and Benefit Expense	\$521,025,481	\$504,654,009	3.2%	\$497,834,458
Total Load - Mwh	58,895,588	59,790,239	-1.50%	59,790,239
\$/Mwh	\$8.85	\$8.44	4.8%	\$8.33

4 **Q. What factors are impacting the Company's compensation and benefit costs?**

5 A. First, the Company's philosophy continues to be to control operations and
 6 maintenance and administrative and general costs to the extent practical to
 7 mitigate the impact on customers of the increased levels of capital investment
 8 currently being made.

9 Second, while controlling compensation and benefit costs, it is critical that
 10 the Company still be able to retain, and attract when necessary, competent and
 11 qualified personnel to manage and operate the system. To do so, the Company
 12 continues to focus its wage levels on the practices within the labor market. The
 13 economic challenges facing the economy have resulted in wage increase levels
 14 below what had been seen in prior periods. This is evident by the wage increase
 15 levels implemented in 2009 of 1 percent to 1.75 percent, and in 2010 and 2011 of
 16 2.0 percent versus what traditionally had been levels in the 3-4 percent range. The

1 planned level for 2012 is 2.0 percent and for 2013 is 2.25 percent. The market
2 continues to see a shift to having employees bear more of the cost of benefits. The
3 Company continues to shift the cost sharing and cost of plans to the employees to
4 align with current market practices.

5 **Total Compensation**

6 **Q. Please briefly describe the Company's compensation philosophy.**

7 A. Two fundamental principles underlie the Company's compensation philosophy.
8 First, the Company's primary goal in determining employee compensation is to
9 provide pay at or near the market average. Competitive compensation is critical to
10 attracting and retaining qualified employees. While the general labor market may
11 be in surplus, the market for the skilled positions required to manage and operate
12 a utility system is extremely competitive. Thus, the Company endeavors to
13 provide the same general pay levels and benefits in its total compensation package
14 as are included in the packages provided by others in the industry. The Company
15 believes that providing total compensation at or near market levels results in
16 reasonable total compensation costs.

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

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

3 A. Each of the Company's positions has been assigned a grade within the Company's
4 overall salary structure. At least annually, the Company collects market data for
5 comparable positions and calculates the average data point for total compensation
6 for each grade. Market data is provided through a variety of compensation studies
7 produced by experts/organizations, including AONHewitt, Towers Watson, and
8 Mercer. In addition, the Company also uses an on-line tool called
9 MarketPay.com. MarketPay.com provides electronic access to all of the
10 compensation studies we have traditionally used and some additional surveys,
11 allowing us to more efficiently perform information searches and job and pay
12 comparisons.

13 After the Company determines the appropriate level of total compensation
14 for a specific grade, it then determines the portion of compensation for each grade
15 that will constitute the "at risk" portion. The Company sets the "at risk" portion
16 by reviewing market compensation using the various compensation studies
17 described above. The "at risk" portion is typically in the 10-25 percent range;
18 however, incentive pay for a few employees is set as high as 75 percent.
19 Generally speaking, the higher the position is within the Company, the higher the
20 amount of pay at risk and thus the higher the percentage of potential incentive
21 pay. The "at risk" portion of compensation (i.e., "incentive compensation") is
22 administered through the Annual Incentive Plan.

23 The remaining percentage of total compensation which is not at risk is

1 referred to as “base compensation.”

2 **Annual Incentive Plan**

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

4 A. The objective of the Annual Incentive Plan is to provide each non-represented
5 employee with incentive to perform at an above-average level. The plan is not a
6 bonus; additional (i.e., incentive) compensation is not layered upon base
7 compensation that is already at market levels for total compensation. Through the
8 process I discussed above, base compensation for each position is set at a level
9 below the market level for total compensation for that position. Only if an
10 employee performs at an acceptable level for the position will the employee have
11 an opportunity to earn total compensation at or near comparable positions in the
12 market.

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

15 A. Yes. In the Company’s experience, a higher level of overall employee
16 performance is achieved when a portion of pay is “at risk.” In addition, the
17 Company’s incentive compensation plan enables the Company to attract and
18 retain talented employees in the increasingly competitive market for skilled labor.
19 Therefore, while the total cost of the Company’s base plus incentive
20 compensation program is equal to what a salary-only plan would be, the benefit to
21 customers is greater.

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

23 A. First, before the distribution of the “at risk” compensation dollars, senior

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

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

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

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

22 A. Each year, the Company's senior management, in conjunction with MidAmerican
23 Energy Holdings Company, set the overall goals for the Company. All of these

1 goals focus on delivering safe and reliable electricity to our customers and
2 providing excellent customer service. Goals include safety goals such as reducing
3 lost time, recordable, preventable, and restricted duty incidents. Customer service
4 goals include implementing local and regional customer service improvements,
5 improving visibility and relations with industrial customers and consumer
6 associations, and improving overall customer satisfaction. Other goals relate to
7 operating within established budgets, including maintaining operating costs,
8 controlling the cost of capital expenditures, and achieving operational
9 efficiencies/financial targets. Still other goals relate to operational performance,
10 major project delivery, organizational planning and development, and quality of
11 service and regulatory commitments. The achievement of each and every one of
12 these goals will serve to benefit our customers.

13 These Company-wide goals serve as the foundation for the goals set for
14 each individual employee. Thus, when an individual employee works with his/her
15 supervisor to establish individual goals for the year, they are set by reference to
16 how that employee's position can advance the overall goals of the Company. The
17 employee's performance on individual goals accounts for approximately 70
18 percent of his or her overall evaluation. In addition to performance against
19 individual goals, all employees are evaluated against six common or "group"
20 goals. These group goals describe the characteristics the Company believes are
21 important to the success of all employees, *i.e.*, customer focus, job knowledge,
22 planning and decision making, productivity, builds relationships and leadership.
23 The employee's performance with respect to these group goals accounts for

1 approximately 30 percent of the employee's overall evaluation.

2 **Q. Does the Company believe it is reasonable to include incentive compensation**
3 **as well as base compensation in rates?**

4 A. Yes, for several reasons. First, the incentive compensation amount is a legitimate
5 business expense and does not result in unreasonable compensation levels. By
6 basing total compensation on market levels, the Company is using an objective
7 and accepted standard. The total compensation amount does not become
8 unreasonable simply because the Company separates the total compensation in
9 two parts.

10 Second, incentive pay allows the Company to recruit and maintain a
11 qualified labor force. If only the base compensation were included in rates, the
12 compensation amount in rates would be significantly below competitive market
13 levels, and the Company could not maintain and attract the workforce needed to
14 provide safe and reliable service.

15 Third, the goals upon which employee performance is assessed are
16 designed to encourage superior performance on the part of our employees to
17 pursue the goals that directly benefit our customers—safety, reliability, and
18 customer service. This is precisely the type of prudently designed incentive plan
19 program that provides direct benefits to customers and which customers should
20 therefore support.

21 Fourth, the incentive plan has been deliberately structured to avoid two
22 elements which regulators have identified as objectionable. One, payment of the
23 incentive is not contingent upon the parent company (i.e., MidAmerican)

1 achieving a trigger profit level. Two, there is no probability that there will be no
2 payment at all under the Annual Incentive Plan, although the amount available for
3 distribution in any year may be less than 100 percent of the level indicated by the
4 market data. The absence of these two elements is in contrast to another incentive
5 plan available to a few of the Company's highest performers, the Long-Term
6 Incentive Plan. The costs of that plan are not included in rates.

7 **Q. Please explain the level of incentive compensation that is included in this**
8 **application?**

9 A. Recognizing that the pool of incentive compensation made available for
10 distribution was reduced below 100 percent of the indicated market level in 2009,
11 2010 and 2011, the Company is proposing in this case to apply a percentage to the
12 market level reflecting the average of the last three full actual years (calendar
13 years 2008 – 2010). As shown in the exhibit of Company witness Mr. Brian S.
14 Dickman (see page 4.2.6 of Exhibit RMP____(BSD-2), this application includes a
15 request for total Company incentive compensation in the amount of \$30.8 million.
16 This amount is calculated using the pro forma wages in this case multiplied by a
17 three-year average of the actual payment rate. The Wyoming portion of this
18 expense is approximately \$2.8 million.

19 **Retirement Plans**

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

21 A. The Company continues to strive to provide a competitive retirement plan
22 offering while at the same time reducing the volatility in expense tied to
23 retirement plans so as to benefit both the customer and employee. In doing so, the

1 Company provides for non-represented employees hired prior to January 1, 2008,
2 the ability to receive their retirement through either a cash balance or 401k only
3 design. All non-represented employees hired post January 1, 2008, receive their
4 retirement through the 401k design approach. Retirement plan benefits for
5 represented employees are determined through the collective bargaining process,
6 through which the Company has maintained its focus to shift the retirement
7 approach from the traditional defined benefit to defined contribution (401k)
8 approach.

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

10 A. Yes, the Company expects to see an increase of \$8.08 million in pension expense
11 during the test period versus actual expenses as of June 2011 for several reasons.
12 The reasons for the PacifiCorp Retirement Plan (“PRP”) differ from the reasons
13 for the PacifiCorp/IBEW Local 57 Retirement Trust Fund (“Local 57”).

14 For Local 57, the Company has recently reached a period where it is
15 obligated to fund more than the negotiated amount in order to meet minimum
16 funding standards as set forth in ERISA and the Internal Revenue Code
17 (“additional required contributions”). The first additional required contribution of
18 \$0.1 million was due in April 2011. Thus the June 2011 historical expenses only
19 includes \$0.1 million for additional required contributions, whereas it is expected
20 that the additional required contributions for the test year ending March 2013 will
21 be significantly greater at \$4.2 million. In the case of the union, funding
22 contributions are the same as expenses to the Company.

1 For PRP, in addition to updating the census data to reflect actual
2 demographic experience, the mortality table has been changed to project longer
3 life expectancies. The most significant impact is due to the lower discount rate
4 used to determine liabilities. The June 2011 level of expenses were determined
5 using the actual interest rates of 5.80 percent at December 31, 2009, for July to
6 December 2010, and 5.35 percent at December 31, 2010, for January to June
7 2011. The discount rate assumed for 2012 and 2013 is 4.80 percent, based on
8 where rates were at September 30, 2011. Finally, there is an increase in expense
9 due to the assumption that the plan's assets will earn 0 percent during 2011,
10 (greater than the actual returns through September 30, 2011) rather than the
11 assumed long-term rate of return of 7.50 percent.

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

16 **Employee Health Benefits**

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

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

23 **Q. How does the Company ensure that it is providing these competitive benefits**

1 **as economically as possible?**

2 A. The Company relies on the advice of its consultant, AONHewitt, to ensure that it
3 is securing market competitive benefits at the best possible rate. AONHewitt are
4 respected experts in their field and the Company has relied on them for many
5 years. With the help of AONHewitt, the Company periodically reviews and
6 adjusts the sharing of healthcare-related costs with employees in an effort to
7 stabilize cost, manage volatility, and respond to changing market practices.

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

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

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

14 A. Yes. Beginning in 2008 the Company made adjustments to the cost sharing and
15 plan design to reduce costs and to align with market practices. In particular, the
16 Company established a base medical plan with a high deductible and a cost
17 sharing of 90/10, which for 2012 will be set at 84/16. The Company continues to
18 offer choice into other medical plans. However, except for a \$300 deductible plan
19 that is offered in rural areas, these plan choices are set at a cost sharing of 70/30.
20 All new hires as of January 1, 2008, have the option of selecting the high
21 deductible plan or opting out of coverage.

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

1 A. This structural shift adheres to the Company's goal of providing competitive
2 benefits to its employees, while doing so in a manner that is fair and prudent for
3 our customers.

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

6 A. There has been a significant upward trend in healthcare costs in recent years. For
7 calendar years 2008, 2009, 2010 and 12 months ended June 2011 actual
8 healthcare expenses totaled \$52.0, \$57.9, \$57.9, and \$60.2 million respectively.
9 Consistent with this trend, the Company has included in this Application
10 healthcare expenses on a total Company basis of \$60.9 million, as shown in
11 Exhibit RMP___(BSD-2). The Wyoming allocated share of healthcare costs is
12 \$5.5 million. As can be seen from the annual expense numbers above, healthcare
13 expenses have increased at a compound annual rate of approximately 3.77 percent
14 per year since calendar year 2008.

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

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

21 A. Yes. The Company implemented benefit design changes to the postretirement
22 welfare plans that resulted in significant cost reductions of \$13.3 million as shown
23 in Exhibit RMP___(BSD-2), adjustment 4.2. These changes help to offset other

1 areas of cost increases I have addressed to the benefit of customers.

2 **Q. Please explain the changes.**

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

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

14 A. Yes.