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Rocky Mountain Power

Docket No. 20-035-04

Witness: Julie Lewis

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF UTAH

ROCKY MOUNTAIN POWER

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Direct Testimony of Julie Lewis

October 2020

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

3 A. My name is Julie Lewis. My business address is 825 NE Multnomah Street, Suite 1800,  
4 Portland, Oregon 97232. I am currently the Vice President of People for PacifiCorp.

5 **Q. Please describe your education and professional experience.**

6 A. I joined PacifiCorp in 1980 and have worked in human resources since 1985. During  
7 this time, I have taken on roles of increasing responsibility, including as Director of  
8 Compensation and Benefits for two years, before assuming my current role in 2018.

### 9 I. PURPOSE & SUMMARY

10 **Q. What is the purpose of your rebuttal testimony in this case?**

11 A. The purpose of my rebuttal testimony is to explain why the Public Service Commission  
12 of Utah (“Commission”) should reject certain wage and labor related adjustments  
13 proposed by Utah Association of Energy Users (“UAE”) witness Mr. Kevin Higgins.

14 **Q. Please summarize your testimony.**

15 A. In my testimony I explain why employee incentive payments should not be disallowed.  
16 The Company’s incentive program is not a “bonus,” is structured to provide benefits to  
17 customers consistent with Commission precedent, and is part of the Company’s total  
18 market-based compensation package. The removal of incentive expense would  
19 therefore result in below-market compensation.

### 20 II. ANNUAL INCENTIVE PAY SHOULD NOT BE DISALLOWED

21 **Q. Please summarize UAE witness Mr. Higgins’ position on the Company’s Annual**  
22 **Incentive Plan (“AIP”) payments to employees.**

23 A. UAE witness Mr. Higgins agrees that the cost of annual incentive compensation plans

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24 are appropriate when the compensation is “not excessive” and “not tied to utility  
25 financial performance, but rather to goals such as customer satisfaction, operating  
26 efficiency, and safety.”<sup>1</sup> He recommends the Commission disallow the [REDACTED] percent  
27 of AIP that is related to the Company [REDACTED] percent) and  
28 [REDACTED] percent).

29 **Q. Please describe PacifiCorp’s compensation philosophy.**

30 A. The Company’s primary objective in establishing employee compensation is to provide  
31 pay at the market average. Compensation at the market average (competitive level) is  
32 critical to attracting and retaining qualified employees to support the business and our  
33 customers. To encourage employee performance, a certain percentage of each  
34 employee’s market compensation must be “at risk.” The Company’s AIP is structured  
35 so that each employee has the opportunity to receive total compensation at the market  
36 average, so long as the employee performs at an acceptable level. In exceptional  
37 performance years, an employee’s at-risk incentive may be more than target and in low  
38 performance years it may be below target, but on average, the at-risk incentive is  
39 generally at the guideline level. If the individual fails to earn the full guideline  
40 incentive, that individual will be paid less than the competitive total cash compensation  
41 in the marketplace for that year. Central to the Company’s approach to total  
42 compensation is that, while certain employees may be paid more than or less than  
43 market in a given year as a result of the at-risk incentive portion of compensation, on  
44 an overall basis the base compensation and at-risk incentive will result in a level of  
45 compensation commensurate with the market. Stated another way, in the unlikely event

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<sup>1</sup> Direct Testimony of Mr. Higgins, at lines 602-605.

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46 every employee performed at exactly the same level, each employee would be paid  
47 only at the market average.

48 **Q. What employees are eligible to receive AIP?**

49 A. Non-union employees who are in an exempt status (salaried employees) are eligible to  
50 receive AIP, which is over 80% of the Company's non-union employees. Non-exempt  
51 or hourly employees are not eligible for AIP.

52 **Q. Please describe how PacifiCorp determines how much AIP each employee  
53 receives.**

54 A. The Company uses Company-wide and department goals, which are detailed in  
55 scorecards, to determine at-risk incentive payments. Each management-level employee  
56 has an individual scorecard by which their at-risk incentive payment is determined.  
57 Employees without an individual scorecard are judged based on the PacifiCorp  
58 scorecard and their department scorecard. An employee's individual at-risk incentive  
59 payment is then adjusted according to their manager's assessment of their performance,  
60 their contribution to the department, and company scorecards.

61 **Q. How are scorecard goals determined?**

62 A. Individual department managers establish specific business unit goals consistent with  
63 the core principles of the Berkshire Hathaway Energy family of companies, which have  
64 direct customer benefits. The six core principles are: (1) customer service;  
65 (2) employee commitment; (3) environmental respect; (4) regulatory integrity;  
66 (5) operational excellence; and (6) financial strength. [REDACTED]

67 [REDACTED] AIP compensation. Performance against scorecard goals is  
68 measured with Key Performance Indicators ("KPIs") that establish the measurable

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69 metric for success. KPIs are specific and measurable goals, such as achieving a certain  
70 reliability score or reducing the number of safety incidents. Business unit goals must  
71 advance the business and demonstrate continuous improvement over previous year  
72 goals.

73 **Q. Please explain the customer benefits associated with each core principle.**

74 A. [REDACTED]  
75 incentive-based compensation provided to the Company by Berkshire Hathaway. Each  
76 individual's AIP may be based on any combination of these factors.

77 *Customer Service* is based on delivering reliable and dependable service to  
78 customers at fair prices. This principle also includes providing exceptional service to  
79 customers. Customer satisfaction surveys comprise [REDACTED] of the total incentive-  
80 based compensation calculation, and approximately [REDACTED] of the Customer Service  
81 category. Keeping customer rates stable and as low as possible, while ensuring reliable  
82 service, provides a direct customer benefit.

83 *Employee Commitment* is based on preventing employee injury and workplace  
84 accidents, encouraging teamwork, and meeting goals related to employee engagement,  
85 training, and development plans. Ensuring that PacifiCorp's employees are safe,  
86 healthy, engaged with the company, and well-trained helps ensure that PacifiCorp  
87 operates safely and well. This in turn benefits PacifiCorp's customers.

88 *Environmental Respect* focuses on increasing investment in renewable energy,  
89 improving emissions rates and efficiency of fossil-fueled generation, offering resources  
90 to help customers manage their energy use, and investing in new transmission and  
91 distribution equipment to reduce the loss of kilowatts and improve reliability. Reducing

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92 emissions, increasing renewable resources, offering demand-side resources, and  
93 improving reliability provides a direct benefit to PacifiCorp’s customers.

94 *Regulatory Integrity* is based on minimizing rate increases by achieving  
95 balanced regulatory and legislative outcomes. Achieving favorable regulatory  
96 outcomes and legislation that does not have adverse impacts to the Company or its  
97 customers directly benefits customers.

98 *Operational Excellence* is based on achieving transmission and distribution  
99 reliability goals. Operational Excellence is also based on optimizing availability factors  
100 for PacifiCorp’s thermal and renewables fleets, and on ensuring PacifiCorp’s electronic  
101 and physical assets are safe and secure. A reliable transmission and distribution system,  
102 transmitting power produced by generating assets that are performing at optimal levels,  
103 and whose electronic and physical assets are safe and secure undeniably provides a  
104 direct benefit to PacifiCorp’s customers.

105 *Financial Strength* is based on achieving strong credit ratings and maintaining  
106 a high-quality, diversified portfolio of regulated businesses. A financially healthy and  
107 well-capitalized utility is able to obtain lower interest rates, which translates to lower  
108 costs for customers.

109 **Q. If an employee received AIP less than the [REDACTED] % that Mr. Higgins recommends**  
110 **be disallowed, would their compensation be below market?**

111 A. Yes. As I explained above, if an employee did not earn the full guideline incentive, that  
112 employee would be paid less than the competitive total cash compensation in the  
113 marketplace for that year.

114 **Q. Is AIP considered a “bonus”?**

115 A. No. It is critical to understand that the “at risk” portion of total compensation is not a  
116 bonus. A bonus is something unexpected. The “at risk” compensation is not  
117 unexpected—in fact, it is the opposite. The “at risk” portion of total compensation is  
118 expected by the employee, but only if the employee performs at or above an acceptable  
119 level. Any reduction beyond the competitive target incentive level would place the  
120 Company in a position of not being able to offer competitive pay levels and placing  
121 operational and customer objectives at risk.

122 **Q. Do you agree with Mr. Higgins that financial performance goals do not benefit**  
123 **customers?**

124 A. No. As explained in the cost of capital testimony of Ms. Nikki Kobliha, the Company  
125 is able to maintain its high credit rating and receive favorable terms on long-term debt  
126 as a direct result of its financial strength.<sup>2</sup> This includes its ability to earn its allowed  
127 return on equity and meet net income targets.

128 **Q. Have other jurisdictions approved recovery of the Company’s AIP?**

129 A. Yes. In docket UE-100749 Order 06, the Washington Utilities and Transportation  
130 Commission stated: “As we decided in the last litigated case, we conclude that the AIP  
131 is an appropriate method of implementing “incentive-based” compensation.”<sup>3</sup> The  
132 Commission acknowledged that the “at risk” component of compensation was “not a  
133 bonus or a level of pay in excess of the maximum compensation for a position. It is  
134 simply motivation for an employee to strive for the total compensation for his or her

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<sup>2</sup> Cost of Capital Rebuttal Testimony of Ms. Kobliha, at lines 165-177.

<sup>3</sup> *Wash. Utilities & Transp. Comm'n v. PacifiCorp d/b/a Pacific Power & Light Co.*, Docket UE-100749, Order 06, Final Order Rejecting Tariff Sheets; Authorizing Increased Rates; and Requiring Compliance Filing at 85 (Mar. 25, 2011).

135 position by achieving certain individual and group goals.”<sup>4</sup>

136 **Q. Has the purpose or structure of the Company’s AIP changed since the**  
137 **Washington decision issued?**

138 A. No.

139 **Q. Do you believe that Mr. Higgins has presented a basis for disallowing any portion**  
140 **of the Company’s at-risk incentive program?**

141 A. No. As discussed above, AIP is designed to be an “at-risk” portion of total market  
142 compensation. To the extent AIP is tied to financial performance, those goals benefit  
143 customers.

144 **III. CONCLUSION**

145 **Q. What is your recommendation?**

146 A. I recommend the Commission reject UAE’s proposed disallowance of a portion of  
147 employee’s “at risk” AIP pay because AIP is not a “bonus” resulting in “excessive”  
148 wages to employees and financial performance goals benefit customers.

149 **Q. Does this conclude your rebuttal testimony?**

150 A. Yes.

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<sup>4</sup> *Id.*