BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF ROCKY MOUNTAIN POWER FOR APPROVAL OF CHANGES TO ITS ELECTRIC SERVICE SCHEDULES	))))))	**CASE NO. PAC-E-07-05** **Direct Testimony of Erich D. Wilson**

ROCKY MOUNTAIN POWER

CASE NO. PAC-E-07-05

June 2007

Q. Please state your name, business address and present position with the Company (also referred to as Rocky Mountain Power).

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, Human Resources.

Qualifications

Q. Briefly describe your education and business experience.

A. I have been employed as the Director of Human Resources since March 2006. From March 2001 to March 2006, I was the Director of Compensation for the Company. Prior to coming to the Company, I held various positions within the area of human resources (operations, benefits and staffing), but for the majority of my career I have directed 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 the 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 include managing the Company's human resource function, including compensation, benefits, compliance, staffing, training and development, employee and labor relations, and payroll. I focus on assisting the Company in attracting, retaining and motivating qualified employees along with the administration of all associated human resource programs and employee experiences.

Purpose of Testimony

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide an overview of the compensation and benefit plans provided to employees at the Company and to support the costs related to these areas that are included in the test period revenue requirement. This overview is focused on our base pay, annual incentive, severance, pension and healthcare benefit plans. These plans are designed to enable the Company to attract and retain the employee talent to deliver operational and service value to the customers we serve. In addition, the Company's programs help provide a highly effective workforce at a reasonable cost and demonstrate that Rocky Mountain Power is a prudent and well-managed company.

Background

Q. Please briefly describe Rocky Mountain Power's compensation and benefits philosophy.

A. The philosophy of Rocky Mountain Power and its parent MidAmerican Energy Holdings Company is to provide a total compensation and benefits package that enables an employee to receive compensation and benefits comparable to the average provided by competitors for labor when an employee performs at an acceptable level. Employees will earn less than the average remuneration when performance is less than acceptable and, conversely, will earn higher than the average remuneration when performance is better than the accepted levels. The Company's objective is to generally provide the same components in its total remuneration package as are included in the packages provided by its competitors. This allows Rocky Mountain Power to attract and retain the quality of employee necessary to provide the high level of service demanded by and owed to our customers, without incurring excessive or unreasonable labor costs.

When reviewing any expenses associated with any single portion of this compensation package, it is essential to recognize that each portion is part of an integrated total package. The total compensation package must be viewed as a whole.

Base and Incentive Compensation

Q. How does the Company determine the base compensation portion of the total compensation and benefits package for each position?

A. At least annually, the Company collects market data for comparable jobs and calculates the average data point for total cash compensation. We then separate the total cash compensation portion into two elements: 1) base salary, and 2) an "at risk" or incentive element. In evaluating the compensation portion of the total compensation and benefits package, these two elements must be considered together; if either portion is eliminated, an employee would not be compensated at a market level. This approach reinforces the Company's strategies and objectives while also providing flexibility and a prudent response to changes in business conditions.

Q. Please describe the incentive element of the compensation portion of Rocky Mountain Power's compensation and benefits package as it exists in the test period.

A. The intent of the incentive element is to put some of the competitive total compensation "at risk." If an employee performs at an acceptable level for the position, the incentive amount (referred to as the target incentive) will allow the employee to earn compensation comparable to other similar positions in the market. If an employee fails to perform at an acceptable level, the employee will receive less than the target incentive or no incentive at all. When this situation occurs, the employee will be paid less than the comparable total cash compensation in the marketplace for that year. Conversely, for exceptional performance, an employee may receive above his or her target incentive level.

Q. What are the objectives of the incentive element of the compensation portion of the total package?

A. The upside opportunity associated with incentive compensation provides the employee with an incentive to exceed performance that is merely acceptable. This opportunity is an essential counterbalance to the risk the employee faces that performance in a particular year will be less than acceptable, with the consequence that total compensation will be less than market in that year. The symmetry of the incentive element provides the Company with the financial tool to encourage exceptional performance and discourage less than acceptable performance. As would be expected from a well-designed, symmetrical plan, the average incentive element is approximately at the target incentive level.

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

A. Yes. In the Company's experience, and as I discuss further below, a higher level of overall employee performance is achieved when a portion of pay is "at risk." Therefore, while the total cost of the Company's base plus incentive compensation program is still based on average total cash compensation, just as a salary-only program would be, the benefit to customers is greater. In addition, the lack of incentive compensation would make it more difficult for the Company to attract and retain talented employees in the increasingly competitive market for skilled labor.

Q. How is the incentive compensation plan structured?

A. Each employee has a target incentive level, as set by competitive market data. The Company's Annual Incentive Plan provides performance awards based on the following: achieving individual and group goals including safety goals, individual performance, and success in addressing new issues and opportunities that may arise during the course of the year. Note that all employees are expected to operate within their respective budgets, but corporate financial performance and returns are not a factor in determining the compensation amount. This approach supports the philosophy of incentive compensation as pay at risk that is earned based on individual performance. There is one important exception to the focus on individual performance; failure of a group or business unit to meet its safety goal will impact the compensation amount even if the individual achieves his or her personal safety goal.

As previously described, the incentive plan is structured to deliver a target incentive level for achieving performance objectives, and this target level maintains the competitiveness of the employee's position within the market place. Awards received above these stated target levels are for exceptional performance, as previously described.

Q. Please explain the level of incentive compensation that you have included in this application?

A. This application includes a request for total Company incentive compensation of $27.5 million, reduced from the $33.9 million included in the 2006 unadjusted data. This request represents the total incentive compensation payout at the target incentive level for each employee participating in the incentive plan during the test year.

Q. What level of incentive compensation does the Company expect to pay out on a year-to-year basis?

A. The Company's pay philosophy is to provide competitive total compensation as set by the competitive market; therefore, it is expected that the target incentive level will be achieved on a year-to-year basis and paid out at that level. While the Company's current incentive compensation design provides for an upside opportunity for individual employees whose performance surpasses acceptable levels, the overall company payout will be limited to the targeted incentive level.

Q. Can you be more specific about the customer benefits related to incentive compensation for Rocky Mountain Power's employees?

A. Yes. Rocky Mountain Power's customers benefit from having exceptional individuals leading and operating the organization who are motivated to achieve challenging goals directly tied to safety, reliability and customer satisfaction – all of which are customer benefits. Each year, the same goals used to manage the Company are used to evaluate and reward employee performance. The best example of this is Exhibit No. 22, the individual goals of Rocky Mountain Power's president, A. Richard Walje. These goals are used not only for Mr. Walje personally, but they also represent the goals of the entire Rocky Mountain Power business unit, which includes all of the power distribution activities in Idaho. Each Rocky Mountain Power employee establishes individual goals that directly reflect Rich's goals for the business unit.

The focus of Mr. Walje's goals, which you would find is similar in approach to the goals of our other senior officers, is to improve all aspects of our business and services provided to our customers and employees. Goal 2 for 2007 is focused on safety and reducing lost time, recordable, preventable and restricted duty incidents. Goal 3 addresses environmental areas of improvement, reduction of preventable environmental incidents, correction of any and all potential noncompliance findings, and meeting all agency requirements, among others. Goal 4 focuses directly on customer/stakeholder satisfaction, implementing local and regional customer service improvements, improving visibility and relations with industrial customers and consumer associations, and improving overall customer satisfaction. Goal 5 relates to operating with established budgets, including maintaining operating costs, controlling the cost of capital expenditures, and achieving operational efficiencies—financial targets that allow the Company to remain a low-cost utility. Other key goals relate to operational performance (goal 6), major project delivery (goal 7), organizational planning and development (goal 8), and quality of service and regulatory commitments (goal 9).

The Company's business strategy relies heavily on the annual development and achievement of these goals by all employees. Aligning employees' success in achieving these goals with a significant portion of their compensation is an obvious performance incentive that ultimately benefits customers.

Q. Does the incentive plan compensate employees based on corporate financial performance?

A. No. As I mentioned, achievement of a level of corporate earnings is not part of this plan. There is an additional incentive plan for selected officers and key personnel that incorporates achievement of corporate financial performance as one of its critical elements. We are not seeking to recover any of the costs of that plan from customers.

The incentive compensation amount included in this case is based on providing competitive market levels of incentive compensation. These levels enable the Company to attract and retain the talent needed to provide safe and reliable service to its customers.

Employee Severance

Q. Please describe how the Company's severance plan operates and why it is offered to its employees.

A. As previously described, the Company has an overall compensation philosophy of providing compensation that is aligned with the competitive market average in order to attract, retain and motivate skilled employees needed to deliver safe and reliable service to its customers. Severance programs are one element of the Company's competitive approach.

Like many large companies, Rocky Mountain Power has maintained a severance plan for its broad-based employee population and an enhanced program for its executives. The Company has assessed its program against the market by working with M Benefit Solutions (previously named MCG Northwest). Attached is Exhibit No. 23, which outlines the 2002 study performed by M Benefit Solutions and used by the Company to confirm its severance program design.

Q. **How do Rocky Mountain Power customers benefit from a severance plan that pays employees who are no longer working for the Company?**

A. Severance plans generally are used to encourage employees to remain with the Company and continue to be productive during a period of organizational changes. This is what occurred following MidAmerican Energy Holdings Company's (MEHC) acquisition of PacifiCorp. The new leadership, based on extensive meetings with customers, stakeholders and regulators, determined that customers would be better served by eliminating a significant number of management and corporate services positions, clarifying accountability, and reorganizing the Company into three business units that were more autonomous and responsive to local needs. As part of this reorganization, management identified a number of operating efficiencies, resulting in the need for fewer employees. The severance plan provided employees who were identified for displacement with an incentive to continue to work productively and effectively while the transition was occurring. The benefits of continued operation of the Company during the transition, the operational improvements of the restructured Company following the transition, and the savings associated with a leaner, more responsive organization, all accrue directly to our customers. In light of these benefits, the costs of transition benefits provided by a severance program are prudent, and their recovery in rates is appropriate.

Q. In January 2007, the Commission authorized the Company to maintain a deferred account for severance costs related to MEHC restructuring (Case No. PAC-E-06-11). Has the Company now recognized all of the severance amounts to be included in this deferred account?

A. Yes. The severance program for both the executive and non-executive level employees was actively utilized when MEHC acquired the Company in order to restructure work and job responsibilities under the new ownership. The company-wide phase of the program ended on May 23, 2007, and all severance-related costs associated with the MEHC labor restructuring program were recognized on or before that date. The Company continues to operate a severance plan that will be applied on a case-by-case basis. Under appropriate circumstances, which may include displacement due to reduction in workforce, the Company may determine whether and to what extent to provide severance benefits using the flexibility inherent in a discretionary plan.

Q. Please identify the MEHC restructuring severance costs for both executive and non-executive employees.

A. As of March 9, 2007, total MEHC severance cost was $39.5 million. This cost is comprised of the following amounts for the two employee groups:

a. Executive severance = $11.4 million

b. Non-executive severance = $28.2 million

Exhibit No. 24 is a list of all non-executive employees' work locations and severance pay as of March 9, 2007. Exhibit No. 25 is a listing and associated severance expense for each employee that received severance under the executive severance plan as of March 9, 2007.

Q. Please explain how the Company has included MEHC restructuring related severance expense in this application?

A. The Company has recognized $39.5 million in severance costs related to the MEHC restructuring that should be deferred pursuant to Order No. 30225. This amount reflects employee terminations from March 21, 2006, through March 9, 2007, related to the sale of PacifiCorp to MEHC. Although the severance costs associated with the MEHC acquisition continued to be incurred through May 23, 2007, the March 9, 2007, cut-off date was used to provide time for preparation of this application. Severance costs incurred after March 9, 2007, have been insignificant.

In light of the benefits of the restructuring described above, as well as the typical role of severance benefits as a component of competitive compensation and benefits packages for employees, the Company believes that the expenses of both the executive and broad-based employee severance benefits were prudently incurred and, as a result, should be included in the Idaho revenue requirement. To appropriately match these costs with the benefits to customers over a reasonable time period, the Company has proposed a three-year amortization of this deferred expense; therefore, one third of the $39.5 million, or $13.2 million on a total Company basis, is included in the computation of revenue requirement in this application.

Q. **Have you prepared a cost/benefit analysis that supports the Company's proposal to include this cost in the revenue requirement?**

A. Yes. An analysis detailing the cost and benefits related to the change in control severance program is provided on Page 4.17.2 of Exhibit No. 11, which is sponsored by Company witness Steven R. McDougal. The analysis supports the inclusion of this expense in the revenue requirement because it is offset by the ongoing benefits of the workforce restructuring.

Q. **Have any of the MEHC restructured and severed positions been backfilled, resulting in both severance costs and an ongoing replacement salary expense?**

A. There are special circumstances where terminations have occurred resulting in severance costs, and the employee's position has been replaced due to the critical nature of the position or the ongoing dynamic nature of the restructuring effort. The attached Exhibit Nos. 24 and 25 include a column ("Replaced (yes/no)") that identifies those meeting these criteria. In these instances, the related severance costs for replaced positions have been removed from the rate case revenue requirement.

All other positions have not been replaced, and to help ensure that the remaining displaced jobs are not inadvertently backfilled, the human resources department established a governance/approval process for new hires that is handled as follows:

1. All new positions are reviewed by human resources and approved by the president/ business unit lead.
2. Once approved by the president/business unit lead, they are then reviewed by the director of human resources.
3. The director of human resources reviews and final approval is provided by the senior vice president of human resources for MidAmerican Energy Holdings Company.

Q. **Please explain why the severance costs for individual executive employees are so much higher than for non-executive employees.**

A. There are fundamental differences in the severance plan design and benefit value for executive-level positions versus non-executive-level positions. Executive-level positions obviously are at greater risk of termination in the event of a change in control, and it is a necessary part of their compensation package that these risks be addressed through appropriate severance arrangements. Moreover, executives are likely to need more time than the broad-based employee population to secure a comparable position with another company. As a result, enhanced severance benefits are an important recruitment and retention tool for executive-level employees.

Q. Please explain the severance expenses and arrangements for the executive employees.

A. The executive severance plan provides the following severance benefits in the event a termination occurs as part of a change in control:

1. Two times base pay at time of termination.
2. Two times target bonus opportunity.
3. Two times annual vehicle allowance.
4. Six to twenty-four months of healthcare continuation (based on years of service).
5. Outplacement services.
6. Additional payment to compensate for any excise tax obligation.

Q. A significant portion of the executive severance costs relate to the Company's former president and chief executive officer, Judi Johansen. Please explain the benefit of these costs to customers in light of the fact that the Company now has three presidents.

A. Ms. Johansen's role was largely assumed by Mr. Greg Abel, the Company's current CEO. Mr. Abel is not on the Company's payroll, and only the portion of his time spent on Company matters is charged to the Company through the inter-company administrative services agreement. Inter-company charges are subject to annual expense limits (and potential rate credits) and must be supported by detailed time reporting, consistent with MEHC and PacifiCorp commitments made to the Commission. The three Company presidents primarily assumed functions that were performed by other Company executives prior to the acquisition by MEHC; those previous positions were eliminated. The restructuring of top-level executives was done to ensure local decisions and control over local issues, particularly in the Rocky Mountain Power states; to clarify responsibility for budgets, safety, operations and customer satisfaction; and to make the presidents more accessible and accountable to customers, regulators and shareholders. The associated executive severance cost is a one-time expense that should be recovered through rates to reflect the long-term benefit of reduced layers of management.

Q. Does the company expect severance expense in the future and if so, has that been included in this filing?

A. There will be instances where the company determines severance would be appropriate for an employee on a case-by-case basis. However, there is no future severance expense included in this filing.

Retirement Plans

Q. Please describe the changes to the Company retirement plan that took effect on June 1, 2007.

A. The Company regularly reviews its compensation and benefit plans. Rising and volatile pension costs and recent changes to applicable laws and regulations led the Company to implement changes to its pension plan that will create a more stable, predictable cost structure.

Previously, the Company has offered employees a traditional defined-benefit pension plan, delivered in value based on a final average pay formula. This approach can cause both short- and long-term cost and volatility of cost and cash funding. To mitigate these risks, the Company has shifted its benefit determination approach, effective June 1, 2007, to a more stable benefit for the non-union workforce. Going forward, the pension benefit will be delivered through a cash balance plan approach. All vested benefits under the current final average pay approach were frozen as of May 31, 2007, and will be provided to employees at the time of retirement. Effective June 1, 2007, the Company established an account for each employee that will grow based on credits of 6.5 percent of annual pay (base plus incentive) plus 4.0 percent of pay in excess of the Social Security taxable wage base ($97,500 in 2007). In addition, on an annual basis each account will receive an interest credit based on the account balance and the annual credit rate.

A transition benefit was provided for employees who are age 40 or older on May 31, 2007. Employees falling in this category will receive additional pay credits for five years (ending in 2012), structured as follows:

Year 1-3 = 4.0 percent

Year 4 = 2.5 percent

Year 5 = 1.5 percent

All new hires eligible to participate in the pension plan after June 30, 2006 will receive a pay credit rate of 5.0 percent and no transition pay credits.

The cash balance plan approach spreads pension costs throughout an employee's career and is conceptually much simpler than a traditional defined-benefit approach (final average pay formula), providing employees more transparency and the Company (as well as the Commission and customers) more predictability. Another key benefit to employees of this approach is its portability and ability to roll over into another retirement account.

The Company is also adjusting its matching and fixed contributions to participants' 401(k) retirement plan. Effective June 1, 2007, the Company will match 65 percent of employee contributions for the first 6 percent of employee pay (change from 50 percent of employee contributions), plus a 1 percent of pay discretionary profit sharing match determined annually. These changes will reduce the maximum employer contribution to the 401(k) plan from 5 percent to 4.9 percent of an employee's pay.

Q. Is the Company making changes to the retirement plan to reduce its overall expense?

A. The pension plan changes will result in savings that will ultimately benefit customers. However, the main reason the Company has decided to shift its pension benefit program is to remain competitive with other energy service providers and to reflect recent legislation passed under the Pension Protection Act of 2006. This change reflects a broader shift in large organizations across the country to cash-balance plans, as many other businesses see the benefit of a more predictable method of funding employee retirement benefits. Based on studies by Hewitt Associates (a copy is attached as Exhibit No. 26), 71 percent of companies (all industries) had traditional defined benefit pension plans in 2000, by 2006, that number had shifted to 53 percent. Those having a cash balance plan moved from 18 percent to 34 percent during the same time period. The same study focusing in on the utility sector shows a shift from 79 percent to 51 percent for traditional defined benefit pension plans and an increase from 19 percent to 35 percent for cash balance plans. This trend has been reinforced to us by many of our larger business customers who wrestle with the same issues associated with providing retirement benefits and have questioned how we would continue to manage the financial uncertainties associated with a defined-benefit plan (final average pay formula).

Q. How much does the Company expect to save by changing to a cash-balance pension plan?

A. Prior to revising the pension plan as described above, the Company had budgeted $54.7 million for its annual pension expense accrual using the final average pay determination approach. Under the revised pension plan structure, the Company now expects the 2007 pension expense accrual to be $49.6 million, yielding an annual reduction of approximately $5.0 million.

Q. How does the Company propose to include the annual pension costs in its calculation of revenue requirement?

A. The Company accounts for its annual pension costs according to the guidelines set forth by the Financial Accounting Standards Board in FAS 87 and more recently FAS 158. The Company has consistently requested recovery of pension expense based on FAS 87 accruals in general rate cases across its six-state service territory since 1998, and would prefer to continue to recover its pension-related expenses under this approach. The level of expense accrual for the test year in this application is $49.6 million as shown on Page 4.5.2 of Company witness Steven R. McDougal's Exhibit No. 11.

However, for purposes of this application, the Company has made an additional adjustment to the test year to calculate revenue requirement based on the level of cash contributions made to the pension plan trust assets during the test year. This adjustment is consistent with Commission rulings in previous general rate cases for both Idaho Power Company (Case No. IPC-E-03-13, Order No. 29505) and Avista (Case No. AVU-E-04-01, Order No. 29602). Consequently, this application includes $66.7 million for annual pension costs.

Q. Why is the Company proposing the additional adjustment to include the cash contributions to its pension fund rather than accrued expenses?

A. The Company's pension plan is an integral component of its overall compensation program, and it is critical that the Company recover the cost of funding the program using a consistent methodology from year to year. The Company has not had an explicit determination made by the Commission regarding the allowed method for Idaho-allocated pension cost recovery since it began adhering to FAS 87 guidelines. Based on the recent Commission decisions cited above, the Company has included cash contributions to the plan assets in the calculation of revenue requirement.

Q. Why is it important that the Company receive direction from the Commission regarding the allowed methodology for recovery of pension-related costs?

A. To adequately fund the Company's pension plan, contributions must be made to plan assets in a way that ensures obligations to employees are ultimately met. The level of these contributions is based on many factors, including investment performance and laws and regulations in place to protect those expecting to receive benefits from the plan, and can vary significantly from year to year. For financial reporting purposes the Company is required to accrue pension expenses according to guidelines contained in FAS 87 and FAS 158. Over the long run, the accrued expense will equal the total cash contributions; however, in a given year the cash contribution may be significantly different than the accrued expense. If a consistent methodology is not followed year after year to determine the appropriate level of expense to include in rates, the Company may not have an opportunity to recover the full cost of funding its pension plan.

Employee Health Benefits

Q. Please describe the Company's rationale for sharing healthcare-related costs with employees.

A. The Company periodically reviews and adjusts the sharing of healthcare-related costs with employees in an effort to stabilize cost, manage volatility, and respond to changing market practices. Exhibit No. 27 provides market data compiled by Hewitt Associates outlining competitive healthcare sharing structures. Rocky Mountain Power has established a tiered rate approach to healthcare premium cost sharing, requiring employees earning greater than $100,000 to contribute 20 percent toward the premium cost, employees earning between $60,000 and $100,000 to contribute 15 percent, and employees earning less than $60,000 to contribute 10 percent. This change was the start of a transition to have all employees at an 80/20 cost sharing level, a level which will be achieved effective January 1, 2008.

An additional consideration for the Company in making this decision to shift the cost-sharing structure was the continued rise in the healthcare costs borne by the Company. This structural shift adheres to the Company's goal of providing competitive benefits to its employees, while doing so in a fair and prudent fashion.

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

A. There has been a significant upward trend in healthcare costs in recent years. For fiscal year 2005 and calendar years 2006 and 2007, expected healthcare expenses totaled $41.5 million, $49.9 million and $60.8 million, respectively. Consistent with this trend, the Company has included in this application healthcare expenses of $58.6 million as shown on Page 4.5.2 of Mr. McDougal's Exhibit No. 11.

Hewitt Associates has informed the Company that current trends indicate the rates for the Company's plans are anticipated to increase further in 2008 by between 9 and 11 percent. Shifting the cost-sharing structure passes more of the increasing expense on to employees rather than customers and, again, is done for the purpose of providing competitive retail electric service to our customers.

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

A. Yes.

Case No. PAC-E-07-05
Exhibit No. 22
Witness: Erich D. Wilson

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

ROCKY MOUNTAIN POWER

Exhibit Accompanying Direct Testimony of Erich D. Wilson

2007 Goals
Rocky Mountain Power
Richard Walje

June 2007

ROCKY MOUNTAIN POWER
A DIVISION OF PACIFICORP

2007 GOALS
ROCKY MOUNTAIN POWER

RICHARD WALJE
PRESIDENT

---

1. **Support all companywide goals – Collaborate with the presidents of Pacific Power, PacifiCorp Energy and MidAmerican Energy Company to ensure the efficient use of resources and to convey consistent external positions.**

2. **Safety – Develop and implement a safety improvement plan that will improve Rocky Mountain Power's safety record by reducing the recordable accident rate, lost-time accident rate, restricted duty cases, medical treatment cases and preventable vehicle accidents.**

   - Reduce lost-time accidents to five or fewer.
   - Reduce recordable incidents to 49 or fewer.
   - Reduce restricted duty incidents to eight or fewer and hearing threshold shift incidents to one or fewer.
   - Reduce preventable vehicle accidents to fewer than 60.
   - Deliver Rocky Mountain Power 2007 safety plan.
   - Comply with all mandated health and safety training requirements.

3. **Environmental – Assure the environmental management system and associated compliance plan encompasses all actions required to reduce risk associated with noncompliance and to mitigate and/or eliminate any potential environmental impacts caused by incidents.**

   - Correct all potential noncompliance findings at facilities.
   - Reduce preventable incidents to fewer than 40.
   - Perform 12 environmental management system required audits.

- Meet U.S. Fish and Wildlife Service requirements for avian and raptor protection.

- Further integrate the environmental services organization within Rocky Mountain Power's construction activities.

- Increase Blue Sky participation by adding 2,250 new customers (a 10 percent increase compared to 2006 actual).

- Review the Blue Sky tariffs across Rocky Mountain Power and file revised tariffs in each state to: clarify the company's ability to provide grants to certain community-based projects that are research and development oriented; allow for the contribution of Blue Sky revenues toward company-owned renewable projects to reduce the cost of renewable energy; and complete other modifications as required to better promote the adoption of renewable energy by customers.

- Deliver demand-side management targets as presented in the proposed 2006 Integrated Resource Plan update of 138 megawatts of class 1 schedule firm and/or dispatchable resources as measured at the customer site (153 megawatts at generator).

- Deliver demand-side management targets for class 2 as presented in the proposed 2006 Integrated Resource Plan of 13.32 average megawatts (14.8 megawatts at the generator). It is anticipated that the class 2 accomplishments also will deliver a minimum of 17 megawatts of permanent peak load reductions to the system as measured at the customer site (20 megawatts at the generator).

- Develop a demand-side management program for consideration in the state of Wyoming and seek approval from the commission. Implement the outcome of the commission decision.

4. **Customer/Stakeholder Satisfaction – Significantly improve customer satisfaction levels at all customer interface points throughout the organization.**

   - Develop and implement a strategic communications plan focused on Rocky Mountain Power, PacifiCorp Energy and MidAmerican Energy Holdings Company's operations, regulations and community relations.

   - Continue to implement local and regional customer service improvement plans.

   - Increase visibility and improve relations with industrial customers and consumer associations.

- Improve J.D. Power & Associates residential customer survey results from 4th quartile rating to a 3rd quartile rating in the Western region.
- Improve J.D. Power & Associates business customer survey results from 3rd quartile rating to 2nd quartile rating in the Western region.
- Achieve TQS customer survey score of No. 1 nationally.
- Achieve commission complaint rate of no more than 0.29 per 1,000 customers (282 complaints).
- Achieve customer guarantee success rate of 99.99 percent or no more than 2.1 failures for every 10,000 customer events (240 failures).
- Achieve telephone service levels of 80 percent answered in 30 seconds.
- Achieve billing accuracy at or above 99.0 percent.
- Achieve meter reading accuracy at or above 99.85 percent.

5. **Financial Performance – Deliver Rocky Mountain Power budgeted net income, operating expenses and capital expenditure targets.**

- Achieve targeted Rocky Mountain Power net income.
- Achieve targeted operating expense budget.
- Achieve targeted capital expenditure investment program.
- Achieve bad debt net write-offs of less than $10.8 million (0.35 percent of revenue) for Rocky Mountain Power and Pacific Power. ($5.4 million or 0.28 percent of billed revenue for Rocky Mountain Power.)
- In compliance with Utah general rate case commitments, deliver $62.8 million in Utah distribution maintenance and $5.1 million in Utah distribution pole replacements.
- Implement improvements to capital forecasting and monitoring identified in the Summit-Vineyard project review.
- Continue to refine the Rocky Mountain Power asset investment plan to assure optimal use of capital.
- Identify and deliver ongoing operational efficiencies.