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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE	)	
APPLICATION OF ROCKY	)	**CASE NO. PAC-E-11-12**
MOUNTAIN POWER FOR	)	
APPROVAL OF CHANGES TO ITS	)	**Direct Testimony of Erich D. Wilson**
ELECTRIC SERVICE SCHEDULES	)	
AND A PRICE INCREASE OF $32.7	)	
MILLION, OR APPROXIMATELY	)	
15.0 PERCENT	)	

ROCKY MOUNTAIN POWER

CASE NO. PAC-E-11-12

May 2011

Q. Please state your name, business address and present position with PacifiCorp, dba Rocky Mountain Power ("Company").

A. My name is Erich D. Wilson. My business address is 825 NE Multnomah, Suite 1800, Portland, Oregon 97232. My present position is Director, Human Resources.

Qualifications

Q. Please 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 in 1999 and have kept this certification current through attending various educational programs and seminars.

Q. Please describe your present 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 support the costs related to these areas included in the test period. This overview focuses on our base pay, annual incentive, pension and healthcare benefit plans. These plans are designed to allow the Company to attract and retain the employee talent necessary to deliver safe and reliable service at a reasonable cost. I also demonstrate that the Company has prudently contained increases in labor costs since the last rate case, and in particular, has kept increases in benefit costs at a competitive level.

Q. How do the total labor costs in this case compare to the Company's last general rate case, Case No. PAC-E-10-07 (the "2010 General Rate Case")?

A. Total labor costs remain relatively flat from the year ended December 2009. The Company has done an excellent job in keeping total labor costs under control. The table below shows that the total wage and benefit expense in this case has increased less than one percent compared to the costs approved by the Commission in the 2010 General Rate Case.

However, when the wage and benefit expense comparison is performed on a per megawatt-hour basis, as reflected in customer rates, costs in the current case are lower than the previous case.

	PAC-E-11-12 CY2011	PAC-E-10-7 CY2010	Percent Change
Total Wages and Benefits	$ 540,267,965	$ 536,697,021	0.7%
MWH Load	58,122,263	57,449,828	1.2%
$/mwh Wages and Benefits	**$ 9.30**	**$ 9.34**	**-0.5%**

Q. What factors have caused wage and benefit costs to increase less year after year?

A. The Company continues to pay wages that are consistent with the practices in the labor market. The economic challenges that began in late 2008 and which have, to a lesser extent, continued through 2010 have been a key factor in keeping wage increases at historically low levels. For example, the Company increased employees' wages for the 12 months ended December 2010 by half of one percent (0.5%) compared to the 3.0 - 3.5 percent range that has traditionally been seen in the markets in which we compete for labor. In fact since December 2006 PacifiCorp's overall salaries have increased less than 2.3 percent over that four-year period, from $468.2 million to $478.8 million as of December 2010.

When you compare employee compensation from December 2010 to December 2006, PacifiCorp's total wage and benefits have decreased from $765.5 million in 2006 to $710.8 million in 2010, a reduction of $54.6 million that is more than a seven percent decrease over a four-year period.

In sum, market compensation data used to establish the Company's compensation levels reflect the economic conditions of the market area. As a consequence, the Company has recognized the economic conditions impacting its service territory. Even beyond that, the Company has controlled compensation and benefit expense to such an extent that the total package is currently slightly below the market average, a condition that the Company will monitor closely.

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

A. Two fundamental principles underlie the Company's compensation philosophy. First, the Company's primary goal in determining employee compensation is to provide pay at the market average. Competitive compensation is critical to attracting and retaining qualified employees in a competitive market, and allows the Company to do so without incurring excessive or unreasonable costs. Thus, the Company endeavors to provide the same general pay levels and components in its total remuneration package as are included in the packages provided by its competitors for labor.

Second, the Company believes that in order to encourage superior performance, a certain percentage of each employee's market compensation must be "at risk." The plan is not a bonus but an incentive to achieve performance that in total will provide competitive total compensation. Accordingly, under the Company's Annual Incentive Plan, each employee has the opportunity to receive total compensation, including both base pay and at risk pay, at the market average, so long as the employee performs at an acceptable level. However, 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 exceptional.

Total Compensation

Q. How does the Company determine the total cash compensation 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 by position. To do so, we use a variety of compensation studies from various experts/organizations, including AONHewitt, Towers Watson, and Mercer. In addition, the Company uses an on-line tool called MarketPay.com. MarketPay.com provides electronic access to all of the compensation studies we have traditionally used and some additional surveys, allowing us to more efficiently perform information searches and job and pay comparisons.

After the Company determines the appropriate level of total cash compensation for a position, it then determines the portion of that compensation that will constitute the "at-risk" portion that is, the "target" incentive pay. The Company sets the "at-risk" portion by reviewing market compensation using the various compensation studies described above. The "at-risk" portion is typically in the 10-25 percent range; however, incentive pay for a few employees is set as high as 75 percent. Generally speaking, the higher the position is within the Company, the higher the percentage of pay at risk. The percentage of total compensation not at risk is referred to as "base compensation."

Q. How does the Company set goals for its employees that are then used to set the incentive pay levels which make up the portion of at-risk compensation?

A. The annual goal setting process begins with discussions between the manager and employee in order to ensure that the employee establishes goals that align with the business and operational objectives and focus on specific areas where the employee can contribute to the objectives. In addition, the goal setting process identifies areas where the employee can improve or develop for the year. The goals are then documented with assigned measurements. The goals include controlling expenses, because employees can reasonably be expected to control costs, which benefits customers. The goals associated with this compensation do not include net income or revenues for most employees as most employees are not in a position to impact revenues. The Company has a separate plan, the Long-Term Incentive Plan ("LTIP") that contains goals related to net income and revenue for those employees' best in a position to impact those elements. The Company does not include costs of LTIP in its rate requests.

Q. Has the Company tailored its goals to benefit shareholders?

A. No. On the contrary, the Company's focus in setting goals is to operate a well run utility that benefits its customers, including improvements to operational efficiency and customer service, and the promotion of a safety culture.

Q: Has the Incentive Plan been successful?

Yes. Since placing a portion of total compensation at risk, the Company has seen improvements in safety, customer service standards, and operational output. These outcomes demonstrate that the Company's approach has been successful in motivating employees in a way that results in customer benefits. While these achievements may provide indirect benefits to the shareholder, that is not the guiding principle in how the program is designed.

Q. Please explain the level of incentive compensation that is included in this filing.

A. As shown in the testimony and exhibits of Company witness Mr. Steven R. McDougal (see page 4.3.4 of Exhibit No. 2), this Application includes a request for total-Company incentive compensation in the amount of $30.0 million. This amount is calculated using the pro forma wages in this case multiplied by a three-year average of the actual payment rate. The Idaho portion of this expense is approximately $1.3 million.

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

A. The Company's pay philosophy is to provide total compensation at the market average, and because target incentive compensation is set to market average, we expect that we will pay out, on a yearly basis, the target levels of incentive compensation.

Q. While the Commission ordered that the 2009 and 2010 base pay wage increases be adjusted in the last case's revenue requirement, do you believe such an adjustment is warranted in this case?

A. No. As demonstrated in my testimony the Company aggressively manages its total compensation package, since 2006 total wage and benefit costs are down over seven percent, further adjustments are unwarranted. The Company continues to take the position that the base pay wage adjustments provided to the work force are set at or slightly below market competitive levels. It is important to appreciate that the level of wage increase as set by the Company does factor in economic conditions (employment and actual compensation trends) and therefore, any adjustment to those expense levels would actually be double counting and negatively impacting the Company's ability to both provide a fair and competitive compensation and also attract the labor needed to meet the expectations and obligations to its customers.

Q. **Does the Company use the metrics of the local econonmy in SE Idaho or for that matter any one service territory to set merit increases across its six state system?**

A. No, it is not unique for a Company which operates in multiple territories and whose compensation philosophy is to attract and attain the talent necessary to service the business and its customers to assess the entire labor market and from the results gleaned from that robust assessment, set its levels in alignment to those results. The Company does not directly pull isolated geographic comparison data, nor would it be appropriate to do so. However, by assessing the entire labor market, most if not all the companies deemed to be the Company's competitors are captured, thereby representing a complete picture enabling the Company to demonstrate to the business and its customers the appropriate level of compensation to provide to its employees.

Q. **Does the Company filing include annual incentive expense as part of the MEHC cross charge?**

A. Yes, there are expenses included in this filing that are related to the proportion of time spent on PacifiCorp related matters by members of MEHC that are then captured via the cross charge. Our customers receive significant value through the leadership, ideas and exposure to other operational practices that are made available through these key MEHC leaders. An example is Ms. Cathy Woollums, senior vice president of environmental services and chief environmental counsel for MEHC, who is a witness in this case on the necessity of the Company's investment in pollution control equipment. The Company has relied on her experience, knowledge of environmental issues and participation with PacifiCorp and its federal and state environmental regulators to design compliance and implementation plans. The incentive plan for these individuals is structured in the identical fashion as described above, established with a focus on improving customer service, operational efficiency and safety. Likewise this incentive plan is the at-risk component of the compensation package which enables a market average total compensation result.

Retirement Plans

Q. Please describe the Company's retirement plan.

A. The Company continues to strive to provide a competitive retirement plan offering, while at the same time reducing the volatility in expense tied to retirement plans so as to benefit both the customer and employee. To mitigate future customer risk the Company moved from a defined benefit plan to a defined contribution plan in June 1, 2007. In doing so, the Company provides, for non-represented employees hired prior to January 1, 2008, the ability to receive their retirement through either a cash balance or through a 401k plan only design. A choice was offered in 2008 and 41 percent of the eligible population elected the 401k plan design. All non-represented employees hired post January 1, 2008, receive their retirement through the 401k plan. Retirement plan benefits for represented employees are determined through the collective bargaining process, through which the Company has maintained its focus to shift the retirement approach from the traditional defined benefit to defined contribution (401k) plans. This shift will benefit the customers over the long run as the employees will bear the risk of their retirement based on their investment choices and the Company will see reduced exposure to the plan required contributions that come as the market encounters volatility.

Employee Health Benefits

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

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

Q. How does the Company ensure that it is providing these competitive benefits as economically as possible?

A. The Company relies on the advice of its consultant, AONHewitt, to ensure that it is securing market competitive benefits at the best possible rate. AONHewitt are respected experts in their field and the Company has relied on them for many years. With the help of AONHewitt, 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.

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

A. Yes. It is widely understood that health care costs have been rising sharply over the past several years and in 2010 the passing of Health Care Reform occurred. As a result, the Company experienced significant increases in its health care benefit costs and anticipates further required actions will be necessary to comply with Health Care Reform.

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

A. Yes. Beginning in 2008 the Company made adjustments to the cost sharing and plan design to reduce costs and to align with market practices. In particular, the Company established a base medical plan with a high deductible and a cost sharing of 90/10 (Company/employee), with the employee share increasing in subsequent years, for 2011 the sharing is set at 84/16. The Company continues to offer choices in other plans, however, except for a $300 deductible plan that is offered in rural areas, these plans are set at a cost sharing of 70/30. All new hires as of January 1, 2008, have the option of selecting the high deductible plan or opting out of coverage.

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

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

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

A. There continues to be a significant upward trend in healthcare costs in recent years. For calendar years 2007, 2008 and 2009 actual healthcare expenses totaled $49 million, $52 million and $57.9 million, respectively. Consistent with this trend, the Company has included in this application healthcare expenses on a total Company basis of $61.5 million, as shown on page 4.3.4 in Exhibit No. 2. The Idaho allocated share of healthcare costs is $2.5 million.

AONHewitt has informed the Company that current trends indicate the rates for the Company's medical benefits are anticipated to increase further in 2011/2012 by between eight and 10 percent, respectively.

Q. Has the Company included expense related to its supplemental executive retirement program (SERP) in this filing?

A. No, the Company acknowledges the Commission's order removing SERP from the last filed rate case. We still take the position that these are not extra, unnecessary or excessive benefits. Our pay and benefits philosophy continues to remain the same in that we provide programs/plans at the market average. The Company honors its commitment to continue to fund SERP expenses and the SERP expense is a form of retirement/pension similar to the frozen benefit expense of the non-union employee population who shifted on June 1, 2007, to a cash balance.

Summary and Conclusion

Q. Please summarize your testimony.

A. Rocky Mountain Power has done an effective job of managing wage and benefit costs and has taken steps to control these costs to the benefit of its customers. Since 2006 the Company has reduced total wage and benefit costs over seven percent. Total compensation packages to employees, including benefits, are kept in line with market data and changes have been implemented to keep benefit costs under control. Employee total compensation packages are implemented in an effective manner through rigid goal setting processes to achieve superior performance for our customers. As a result, I urge the Commission to accept the Company's level of wage and benefit costs as reasonable and prudent.

Q. Does this conclude your direct testimony?

A. Yes.