

**BEFORE THE WASHINGTON  
UTILITIES AND TRANSPORTATION COMMISSION**

**WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,**

**Complainant,**

**v.**

**PACIFIC POWER & LIGHT  
COMPANY,**

**Respondent.**

**DOCKETS UE-140762 and UE-140617  
(consolidated)**

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**In the Matter of the Petition of**

**PACIFIC POWER & LIGHT  
COMPANY,**

**For an Order Approving Deferral of  
Costs Related to Colstrip Outage.**

**DOCKET UE-131384 (consolidated)**

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**In the Matter of the Petition of**

**PACIFIC POWER & LIGHT  
COMPANY,**

**For an Order Approving Deferral of  
Costs Related to Declining Hydro  
Generation.**

**DOCKET UE-140094 (consolidated)**

**PACIFIC POWER & LIGHT COMPANY  
REBUTTAL TESTIMONY OF ERICH D. WILSON**

**November 2014**

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1 **Q. Are you the same Erich D. Wilson who previously submitted direct testimony in**  
2 **this case on behalf of Pacific Power & Light Company (Pacific Power or**  
3 **Company), a division of PacifiCorp?**

4 A. Yes.

5 **PURPOSE OF TESTIMONY**

6 **Q. What is the purpose of your rebuttal testimony?**

7 A. The purpose of my rebuttal testimony is to address certain labor-related adjustments  
8 proposed by Public Counsel witness Ms. Donna M. Ramas. Specifically, I address  
9 Public Counsel's pro forma wage adjustment, workforce level adjustment, and  
10 adjustments related to the Company's pension expense and Other Post-Employment  
11 Benefits (OPEB).

12 **Q. Please summarize your testimony.**

13 A. The Company included pro forma adjustments to its wage and salary expense to most  
14 closely match the expenses expected during the rate-effective period. This approach  
15 is conceptually consistent with past Commission precedent allowing pro forma  
16 adjustments to ensure accuracy in the Company's labor costs. Consistent with past  
17 rate filings, the Company included a pro forma wage and salary adjustment, but did  
18 not include pro forma adjustments for other components of its labor expenses.

19 Public Counsel is the only party that challenged the Company's labor  
20 expenses, proposing adjustments to remove portions of the pro forma wage and salary  
21 adjustment, reflect temporarily lower workforce levels, and include selective pro  
22 forma adjustments for pension and OPEB expense. Public Counsel's adjustments are  
23 inconsistent with prior Commission orders and should be rejected.

1 **WAGES AND SALARIES**

2 **Q. How did the Company calculate its wage and salary expense in this case?**

3 A. The Company included a pro forma adjustment to reflect salary and wage expenses at  
4 the level expected in the rate-effective period. The adjustment is based upon known  
5 and measurable increases under union contracts and known or anticipated increases  
6 for the non-union workforce.

7 **Q. Please explain Public Counsel’s adjustment to wages.**

8 A. Public Counsel criticizes the Company for including projected wage increases  
9 through the rate-effective period. Public Counsel recommends that the pro forma  
10 wage and salary increases be limited to the actual known and measurable increases  
11 occurring within 12 months of the end of the test year, or through December 31,  
12 2014.<sup>1</sup> Public Counsel argues that the proposed pro forma adjustment extends too far  
13 beyond the test year. This adjustment would reduce the Company’s revenue  
14 requirement by approximately \$680,000 on a Washington-allocated basis.

15 **Q. Do you agree with this adjustment?**

16 A. No. As Public Counsel recognizes, the Commission already has a history of allowing  
17 pro forma wage and salary increases that extend beyond the test year. The  
18 Company’s pro forma adjustment in this case is conceptually consistent with that  
19 precedent, seeking to most accurately capture the costs expected to occur in the rate-  
20 effective period. This approach is also conceptually consistent with the  
21 Commission’s allowance of projected and updated net power costs for the rate-  
22 effective period.

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<sup>1</sup> Revised Testimony of Donna M. Ramas, Exhibit No. DMR-1CT at 19-21.

1 **Q. Please summarize the Commission’s orders allowing pro forma wage and salary**  
2 **adjustments.**

3 A. In the Company’s 2010, 2011, and 2013 rate cases (Dockets UE-100749, UE-111190,  
4 and UE-130043, respectively), the Company’s filing included pro forma adjustments  
5 to the test year wage and salary levels to reflect known and measurable changes. In  
6 the 2010 rate case, the pro forma adjustments reflected wage and salary increases  
7 occurring within 12 months of the end of the test period. In that case, the  
8 Commission expressly rejected parties’ proposals to remove the pro forma  
9 adjustments, finding that the “pro forma wage increases reflect known and  
10 measurable changes, and we approve them.”<sup>2</sup>

11 Similarly, in the 2011 rate case the Company included pro forma wage and  
12 salary adjustments to reflect the known and measurable changes occurring during the  
13 12 months following the test period. Parties again objected to the increase.  
14 Ultimately, the 2011 rate case was resolved by a stipulation that did not specifically  
15 address wages and salaries.

16 In the 2013 rate case, the Company again included a pro forma wage and  
17 salary adjustment, this time without objection from the parties.

18 **Q. The Company’s pro forma adjustment extends farther beyond the test year than**  
19 **the adjustments the Company has proposed in prior cases. Is there any**  
20 **precedent supporting this adjustment?**

21 A. Yes. Although the Company did not include adjustments reflecting the rate-effective  
22 period in its prior cases, Avista Corporation, d/b/a Avista Utilities, has used this

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<sup>2</sup> *Wash. Utils. & Transp. Comm’n v. PacifiCorp*, Docket UE-100749, Order 06 ¶¶ 226-235 (Mar. 25, 2011).

1 approach in prior cases.<sup>3</sup>

2 **Q. Does the Company's pro forma adjustment satisfy the Commission's known and**  
3 **measurable standard?**

4 A. Yes. The wage and salary expense reflected in the pro forma adjustment for union  
5 employees represents the actual contractual amounts that the Company will pay to  
6 those employees during the rate-effective period. These contractual wages and  
7 salaries are market based, resulting from negotiations with the unions.

8 Similarly, the Company's pro forma adjustment for non-union employees  
9 represents a conservative, market-based wage level that is representative of the wages  
10 and salaries that will be paid during the rate-effective period. The non-union wage  
11 and salary expenses are known and measurable because they are based on the actual  
12 increases set as of December 26, 2014, and the planned wage and salary increases  
13 through the rate-effective period. The planned increases are consistent with the  
14 Company's historical wage increases, both in terms of the timing of the increase and  
15 the percentage increase.

16 **EMPLOYEE REDUCTIONS**

17 **Q. What employee levels did the Company use to determine its labor expenses**  
18 **during the rate-effective period?**

19 A. The Company used employee levels from the historical test period to determine its  
20 labor expense.

21 **Q. Please explain Public Counsel's adjustment to the employee levels.**

22 A. Public Counsel claims that the Company's number of full-time-equivalent (FTE)

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<sup>3</sup> See e.g., *Wash. Utils. & Transp. Comm'n v. Avista Utilities*, Docket UE-120436, Direct Testimony of Elizabeth M. Andrews, Exhibit No. EMA-1T at 28 (Apr. 2, 2012).

1 employees has decreased since the test period and that the revenue requirement  
2 should be based on the number of employees as of June 2014.<sup>4</sup> Public Counsel's  
3 adjustment would reduce the total number of FTE employees by 67 or 1.24 percent.  
4 This adjustment results in a reduction to revenue requirement of approximately  
5 \$380,000 on a Washington-allocated basis.

6 **Q. Do you agree with this adjustment?**

7 A. No. While it is true that the number of employees temporarily decreased between the  
8 test year and June 2014, it is the Company's intent to fill these vacancies and the  
9 Company was and is actively recruiting. For example, vacancies in journeyman craft  
10 positions are backfilled through various ways, including external hiring, creating  
11 apprenticeships, or by using temporary employees or contractors. Many of the  
12 Company's service areas can present real challenges in terms of attracting and  
13 retaining qualified candidates so a variety of methods are used to try and fill vacant  
14 positions.

15 **Q. Is there any evidence that the June 2014 workforce level is indicative of the**  
16 **number of employees during the rate-effective period?**

17 A. No. The Company's staffing numbers are dynamic and constantly changing. In fact,  
18 from April 30, 2014, through August 31, 2014, the Company added 376 employees,  
19 while also sourcing for an additional 326 positions that became vacant during the  
20 same time period.

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<sup>4</sup> Revised Testimony of Donna M. Ramas, Exhibit No. DMR-1CT at 22-24.

1 **Q. Has the Commission previously rejected adjustments similar to the one proposed**  
2 **by Public Counsel?**

3 A. Yes. In the Company's 2010 rate case, the Industrial Customers of Northwest  
4 Utilities (ICNU) and Public Counsel argued for a similar type of adjustment, claiming  
5 that PacifiCorp had experienced workforce reductions since the end of the test  
6 period.<sup>5</sup> The Commission rejected the ICNU and Public Counsel adjustment because  
7 they failed to demonstrate that the workforce reductions were permanent.<sup>6</sup> In that  
8 case, like here, the workforce reductions were temporary and due to hiring lag.  
9 Public Counsel provided no evidence to suggest that the June 2014 employee levels  
10 represent a permanent reduction in workforce that should be reflected in rates.

11 **Q. If the Company is unable to fill positions, will the expense level go down**  
12 **correspondingly?**

13 A. No. The amount of work and ultimately the dollars required to complete the work is  
14 not dependent on the number of FTE employees. The Company uses a mix of FTE  
15 employees and contract labor to perform specific planned and unplanned work that is  
16 required to offer safe, reliable service. When sufficient internal resources are not  
17 available to complete all work plan requirements, external resources are used to  
18 complete required work activities. If the revenue requirement is reduced for assumed  
19 reductions in employee levels, the Company would require a corresponding  
20 adjustment to increase non-labor expense. The amount of work required to be  
21 completed has not decreased and no reduction in the allowed expense should be

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<sup>5</sup> *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-100749, Responsive Testimony of Greg R. Meyer on Behalf of the Industrial Customers of Northwest Utilities and Public Counsel, Exhibit No. GRM-1CT at 22-23 (Oct. 5, 2010).

<sup>6</sup> *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-100749, Order 06 ¶ 232 (Mar. 25, 2011).



1 incurred due to FTE numbers. The Company must maintain the safe, reliable service  
2 that customers depend on and, in doing so, will continue to use a mix of FTE  
3 employee and contract services to complete the necessary operations and maintenance  
4 work.

#### 5 **PENSION AND OPEB EXPENSE**

6 **Q. How did the Company calculate the pension and OPEB expense levels that were**  
7 **included in its initial filing?**

8 A. Consistent with prior filings, the Company included the historical test-year expenses  
9 in its initial filing.

10 **Q. Please describe Public Counsel's proposed adjustments to pension and OPEB**  
11 **expense.**

12 A. Public Counsel recommends that the pension and OPEB expense be updated to reflect  
13 amounts for 2014.<sup>7</sup> Public Counsel argues that these amounts are known and  
14 measurable changes. Public Counsel's adjustments reduce pension expense by  
15 approximately \$1.2 million and OPEB expense by approximately \$100,000, both on a  
16 Washington-allocated basis.

17 **Q. Do you agree with Public Counsel's pension and OPEB expense adjustments?**

18 A. No. Public Counsel's adjustments are inconsistent with prior pension and OPEB  
19 expense treatment and unreasonably single out these expenses for pro forma  
20 adjustment. The Company's prior filings consistently used the test-year pension and  
21 OPEB expenses, without controversy.

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<sup>7</sup> Revised Testimony of Donna M. Ramas, Exhibit No. DMR-1CT at 24-28.

1 **Q. How do you reconcile your rejection of Public Counsel’s pension and OPEB**  
2 **expense adjustment with your recommendation to adjust wages and salaries to**  
3 **reflect amounts through the rate-effective period?**

4 A. As discussed above, the Company’s treatment of wage and salary expenses is  
5 consistent with past filings by both Pacific Power and other Washington utilities,  
6 which have used known and measurable pro forma adjustments to more accurately  
7 reflect the wages and salaries during the rate-effective period. However, even though  
8 the Company uses pro forma adjustments for wages and salaries, it does not make  
9 similar adjustments for other labor costs, such as pensions, OPEB, or other employee  
10 benefits (like health-care benefits). For example, in the 2010 rate case discussed  
11 above, the Commission specifically approved the Company’s pro forma wage and  
12 labor adjustment while observing that “PacifiCorp did not adjust changes in  
13 workforce levels, employee benefits and incentives.”<sup>8</sup>

14 **Q. Why is it problematic to provide pro forma adjustments for only pension and**  
15 **OPEB expenses?**

16 A. Adjusting only two components to decrease the Company’s total labor-related  
17 expenses, without making corresponding adjustments to the other labor-related  
18 expense components that will offset the increases is inconsistent and unfair.

19 **RECOMMENDATION AND CONCLUSION**

20 **Q. What is your recommendation to the Commission?**

21 A. I recommend that the Commission approve the Company’s proposed labor expenses  
22 as consistent with prior Commission orders. I further recommend that the

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<sup>8</sup> Docket UE-100749, Order 06 ¶ 226.

1 Commission reject Public Counsel's proposed adjustments to wages and salaries,  
2 workforce levels, and pension and OPEB expense.

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

4 A. Yes.