

Exhibit No.____(EDW-3T)
Docket UE-130043
Witness: Erich D. Wilson

**BEFORE THE WASHINGTON
UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PACIFICORP d/b/a
Pacific Power & Light Company

Respondent.

Docket UE-130043

PACIFICORP

REBUTTAL TESTIMONY OF ERICH D. WILSON

August 2, 2013

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

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 Washington Utilities and Transportation Commission (Commission)
9 staff witness Ms. Joanna Huang and Public Counsel Division of the Washington
10 Attorney General's Office (Public Counsel) witness Mr. Sebastian Coppola.

11 Specifically, I demonstrate:

- 12 • The Annual Incentive Plan (AIP) expense is reasonable and should be
13 recoverable in rates. It is consistent with the competitive market in which
14 the Company competes for labor and has been approved by the
15 Commission in prior proceedings.
- 16 • It is appropriate to update PacifiCorp's October 2012 employee count to
17 reflect January 2013 numbers.
- 18 • The Washington allocation of a portion of the compensation of select
19 MidAmerican Energy Holdings Company (MEHC) officers directly
20 benefits customers and should be recoverable in rates.
- 21 • PacifiCorp has a well-defined approach to setting compensation levels for
22 its senior leadership based on the competitive market levels for
23 comparable positions. The compensation levels requested by PacifiCorp

1 are necessary to ensure that PacifiCorp attracts and retains the talent
2 needed to deliver quality service.

3 **COMPENSATION PHILOSOPHY AND BACKGROUND**

4 **Q. Please briefly review the Company’s compensation philosophy.**

5 A. The Company’s primary objective in establishing employee compensation levels is to
6 provide pay at the market average. Compensation at the market average
7 (“competitive level”) is critical to attracting and retaining qualified employees to
8 support the business and our customers.

9 To encourage superior performance, the Company places a certain percentage
10 of each employee’s market compensation “at risk.” The Company’s AIP is structured
11 so that each employee has the opportunity to receive total compensation at the market
12 average, so long as the employee performs at an acceptable level. In exceptional
13 performance years, an employee’s incentive pay may be above the targeted level; in
14 low performance years, it may be below the targeted level. On average, however, the
15 incentive is generally at or near the targeted (or “guideline”) level.

16 If an employee fails to earn the full guideline incentive, that individual will be
17 paid less than the competitive total cash compensation in the marketplace for that
18 year. While certain employees may be paid more than or less than market levels in a
19 given year as a result of the incentive portion of compensation, on an overall basis,
20 employee base compensation and incentives are structured to result in a level of
21 compensation commensurate with the market.

1 **Q. Has the Company’s general compensation philosophy and approach changed in**
2 **any material way since the time of the Commission’s last decision?**

3 A. No. Since MEHC acquired PacifiCorp in 2006, PacifiCorp’s compensation
4 philosophy and approach have remained constant.

5 **Q. Has the Company proposed including in rates costs related to its Long-Term**
6 **Incentive Partnership Plan (LTIP)?**

7 A. No. The Company’s LTIP is a separate plan for executives that awards compensation
8 based on overall corporate performance, including revenues and net income. The
9 Company does not ask customers to absorb the costs associated with that plan, and
10 these costs are not included in this case.

11 **ANNUAL INCENTIVE PLAN (AIP)**

12 **Q. Please describe Staff’s proposed adjustment to the general wage levels set for**
13 **2013.**

14 A. Staff proposes removing a wage increase tied to PacifiCorp’s AIP.¹ While Staff
15 supports PacifiCorp’s request for a wage increase tied to base salary, it argues that
16 PacifiCorp’s request for a parallel increase in the AIP portion of employee
17 compensation should be rejected. Staff argues that the incentive portion of
18 compensation is always at risk and can be up or down based on annual performance.
19 Staff further argues that if it can only be adjusted upward, it becomes nothing more
20 than another form of base salary increase.² Staff’s proposed adjustment would reduce
21 the revenue requirement by \$28,194 on a Washington-allocated basis.³

¹ Exhibit No.__(JH-1T) at page 10.

² *Id.*

³ Exhibit No.__(JH-2) at page 5, line 16, column J.

1 **Q. Do you agree with Staff’s proposed adjustment?**

2 A. No. Staff contends that the competitive market adjustment to base salary for the
3 period in question is appropriate. But Staff incorrectly categorizes the AIP portion of
4 compensation as disconnected from the base salary and the respective adjustment, and
5 thus incorrectly subjects it to different treatment, simply because the AIP is “at risk.”

6 The AIP, however, is part of an overall compensation package that is set at
7 competitive market levels. PacifiCorp continues to set its base wages at market
8 average levels to remain competitive. This enables the hiring and retention of the
9 talent necessary to provide high-quality, reliable service to our customers. PacifiCorp
10 sets the annual base wage adjustment and corresponding adjustment to AIP based
11 upon annual review of the compensation levels provided by other employers in the
12 labor markets in which it competes. These compensation levels are driven by the
13 economy and the associated impacts of all companies in the company’s competitive
14 market. The AIP is a critical piece of compensation that allows PacifiCorp
15 employees the opportunity for their overall compensation to reach competitive market
16 levels. An increase in base salary should therefore be paired with a parallel increase
17 in the AIP, as the two pieces are integral to a competitive market compensation
18 package. Overall, this compensation package is reasonable and benefits ratepayers by
19 encouraging superior employee performance. The Commission has approved this
20 approach in the past and should do so again.⁴

⁴ See *Wash. Utils. & Transp. Comm’n v. PacifiCorp*, Docket UE-100749, Order 06, ¶¶248-50 (“By its very definition, incentive compensation is not a bonus or a level of pay in excess of the maximum compensation for a position. It is simply motivation for an employee to strive for the total compensation for his or her position by achieving certain individual and group goals. . . . The AIP is reasonable and its goals offer benefits to ratepayers.”).

1 **WORKFORCE**

2 **Q. Please describe Public Counsel’s proposed adjustment to workforce levels and**
3 **the corresponding impact on labor expense.**

4 A. Public Counsel points out that PacifiCorp included an operation and maintenance
5 efficiency adjustment that reduced employee count and revenue requirement.⁵ Public
6 Counsel observes that as of October 2012, PacifiCorp had approximately 45 more
7 employees than it did in January 2013.⁶ Public Counsel recommends the
8 Commission use PacifiCorp’s employee count as of January 2013, reducing revenue
9 requirement by \$269,448 on a Washington-allocated basis.⁷

10 **Q. Do you agree with Public Counsel’s proposed adjustment?**

11 A. Yes. As reflected in Mr. Steven R. McDougal’s Exhibit No.____(SRM-7), the
12 Company reflects January 2013 employee levels in its rebuttal case.

13 **EXECUTIVE COMPENSATION**

14 **Q. Please describe Public Counsel’s proposed adjustment to the compensation**
15 **allocation of selected MEHC officers.**

16 A. Public Counsel argues that MEHC officers do not appear to provide any direct benefit
17 to customers, but instead appear to be duplicative of PacifiCorp executive
18 management.⁸ As a result, Public Counsel proposes to remove the Washington-
19 allocated portion of MEHC officer compensation from rates, which would reduce the
20 revenue requirement by \$138,121.⁹

⁵ Exhibit No.____(SC-1CT) at page 32.

⁶ *Id.*

⁷ *Id.*

⁸ *Id.* at 35.

⁹ *Id.* at 36.

1 **Q. Do you agree with Public Counsel’s proposed adjustment?**

2 A. No. Before its acquisition by MEHC, PacifiCorp was led by a single Chief Executive
3 Officer (CEO). Under the CEO, top-level senior business leaders headed up each of
4 the Company’s functional areas. As part of the MEHC acquisition, however,
5 PacifiCorp was structurally realigned. The top-level CEO position was removed,
6 along with all expenses related to that position (such as the CEO’s annual salary of
7 \$750,000). Some of the top-level senior business leader positions, however, were
8 retained. Those business leaders are now able to leverage, at significantly reduced
9 expense, the expertise of the four MEHC officers whose compensation is allocated
10 across PacifiCorp’s business units. If PacifiCorp were to seek this level of expertise
11 and support in the open market, the expense would far exceed the allocation to rates
12 reflected in PacifiCorp’s requested revenue requirement.

13 **Q. Can you provide an example of how PacifiCorp leverages the expertise of the**
14 **MEHC officers?**

15 A. Yes. The highest level employees at PacifiCorp for human resources, information
16 technology, and risk and insurance are managing director/director-level positions
17 rather than vice presidents. These directors report directly to the MEHC Senior Vice
18 President and Chief Administrative Officer.

19 **Q. Please describe Public Counsel’s proposed adjustment to the compensation**
20 **levels of PacifiCorp’s senior leadership.**

21 A. Public Counsel reviewed compensation for the top 25 highest paid positions at
22 PacifiCorp. Public Counsel criticizes PacifiCorp’s process for setting executive
23 compensation levels for these senior leadership positions and argues that executive

1 cash compensation for PacifiCorp’s executive leadership exceeds market levels.¹⁰

2 Public Counsel’s adjustment would reduce the revenue requirement by \$68,359.¹¹

3 **Q. Do you agree with Public Counsel’s proposed adjustment?**

4 A. No. First, PacifiCorp has a well-established process for setting market-based
5 compensation levels for senior business leaders. Other than the four named executive
6 officers (NEOs) whose compensation is set at the discretion of the CEO,
7 Mr. Greg Abel, the process for establishing compensation levels for senior
8 management is formalized and based on competitive market data. Second,
9 PacifiCorp’s goal is to set market-based compensation at levels that are sufficient to
10 attract and retain highly qualified leaders who create significant value for our
11 organization.

12 As a preliminary matter, I disagree with Public Counsel’s assertion that
13 PacifiCorp “refused to provide . . . comparative information” on NEO
14 compensation.¹² This assertion is inaccurate and misleading. In accordance with the
15 stipulation in the Company’s 2011 general rate case (Docket UE-111190), I prepared
16 a detailed report on executive compensation.¹³ As this report made clear, NEO
17 compensation is set solely by Mr. Abel, not on the basis of any particular data
18 analysis. As a result, there was no analysis available that was directly responsive to
19 Public Counsel’s request. For the remaining executive positions at issue, PacifiCorp
20 gave Public Counsel the information responsive to its requests, including direct

¹⁰ *Id.* at page 34.

¹¹ *Id.*

¹² *Id.* at page 33.

¹³ See Exhibit No.__(EDW-2). See also *Wash.Util. & Transp. Comm’n v. PacifiCorp*, Docket UE-130043, Order 07, ¶ 25 (March 30, 2012).

1 access to the on-line evaluation tool used internally to determine compensation for
2 employees.

3 Public Counsel’s assertion that PacifiCorp lacks a defined regimen of using
4 market data to set executive compensation is inaccurate. As noted above, only the
5 compensation for PacifiCorp’s four NEOs is set by Mr. Abel. Compensation for the
6 remaining executive positions, however, is set using the same well-defined, market-
7 based approach used to determine the total compensation package for all employees.
8 This process was described in my direct testimony,¹⁴ but by way of summary, each of
9 the Company’s positions is assigned a specific grade within PacifiCorp’s overall
10 salary structure. PacifiCorp collects market data for comparable positions at least
11 annually using a number of sources of information, including the online tool
12 “MarketPay.com.” PacifiCorp uses this market data to determine the appropriate
13 level of total cash compensation for each position, including the executive positions
14 at issue. It then designates a certain portion of that compensation to be “at risk” for
15 each grade.

16 After its review, Public Counsel concluded that compensation levels for many
17 of PacifiCorp’s executives were above market levels. In reviewing Public Counsel’s
18 proposed adjustments to executive compensation, however, it appears that Public
19 Counsel’s analysis of the data was not comprehensive because it excluded appropriate
20 elements of total compensation data in its analysis. Public Counsel also neglected to
21 include important data when determining proper compensation for a particular
22 position. When looking at the appropriate market compensation level for a particular

¹⁴ Exhibit No.__(EDW-1T) at pages 4-5.

1 role, all job matches should be selected from the data that reflect the scope and
2 breadth of the role being analyzed. This provides data points that generate a complete
3 and overall view/average of appropriate market compensation levels. It appears that
4 Public Counsel selected only one data source when matching each position, an
5 improperly narrow approach to assessing the available market data. As a result,
6 Public Counsel's conclusions about appropriate market compensation levels
7 (reflected in Exhibit No.__(SC-15C)) are inaccurate.

8 Moreover, Public Counsel's adjustment is related to the executive pay of
9 PacifiCorp's top 25 highest paid positions. The isolated identification of this select
10 group drives a specific result. These are senior-level positions where unique skills
11 and varying performance will cause fluctuation around the market-defined level. This
12 is evident by the fact that Public Counsel's exhibit shows both positive and negative
13 variances around the calculation of market averages.

14 For all senior level employees, the Company's primary goal in researching
15 market data and setting employee compensation is to set levels that are sufficient to
16 attract and retain highly qualified leaders who can create significant value for our
17 organization. This continues to be critical in a market that is increasingly competitive
18 so the Company can continue to deliver safe and reliable services to our customers at
19 a reasonable cost. The base and incentive compensation structure included in this rate
20 filing reflects legitimate business expenses at a reasonable level of compensation.

1

RECOMMENDATION AND CONCLUSION

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

3 A. I recommend that the Commission reject Staff's and Public Counsel's proposed
4 adjustments to AIP and executive compensation. PacifiCorp's compensation
5 approach has been supported by the jurisdictions in which it operates, including
6 Washington.¹⁵ The Commission should continue to support this approach.

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

8 A. Yes.

¹⁵ See *Wash. Utils. & Transp. Comm'n v. PacifiCorp*, Docket UE-100749, Order 06, ¶ 235 (March 25, 2011).