

Exhibit No.____(EDW-1T)
Docket UE-14____
Witness: Erich D. Wilson

**BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION,

Complainant,

v.

PACIFIC POWER & LIGHT COMPANY,
a division of PacifiCorp

Respondent.

Docket UE-14____

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

May 2014

1 **Q. Please state your name, business address, and present position with Pacific**
2 **Power & Light Company (Pacific Power or Company), a division of PacifiCorp.**

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

6 **QUALIFICATIONS**

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

8 A. I have been employed as the Director of Human Resources since March 2006. From
9 March 2001 to March 2006, I was the Director of Compensation. Before joining
10 PacifiCorp, I held various positions within the area of human resources (operations,
11 benefits, and staffing), but for the majority of my career I have directed the design
12 and administration of compensation programs. I received a bachelor's degree in
13 economics (business) from the University of California, San Diego in 1992. In
14 addition, I achieved the Certified Compensation Professional status from the
15 American Compensation Association in 1999 and have kept this certification current
16 by attending various educational programs and seminars.

17 **Q. Please describe your present duties.**

18 A. My primary responsibilities include managing PacifiCorp's human resource function,
19 including compensation, benefits, compliance, staffing, training and development,
20 employee and labor relations, and payroll. I focus on assisting in attracting, retaining,
21 and motivating qualified employees, along with the administration of all associated
22 human resource programs and employee experiences.

1 **PURPOSE AND SUMMARY OF TESTIMONY**

2 **Q. What is the purpose of your testimony?**

3 A. The purpose of my testimony is to provide an overview of the compensation and
4 benefit plans provided to employees and to support the costs related to these areas
5 included in the test period.

6 **Q. In your testimony, do you address both union and non-union compensation and
7 benefit plans?**

8 A. The focus of my testimony is on the plans and programs provided to the non-union
9 workforce. The compensation and benefit plans provided to the union workforce are
10 governed by their respective collective bargaining agreements. These agreements are
11 reached between PacifiCorp and the union and are intended to provide market-
12 competitive compensation, benefits, and work rules. The costs associated with the
13 union workforce are addressed in the exhibits of Ms. Natasha C. Siores.

14 **Q. Please provide a summary of your testimony.**

15 A. My testimony discusses the Company's total compensation plan (consisting of base
16 pay and annual incentive), retirement plans, and health-care benefit plans. These
17 plans are designed to allow the Company to attract and retain the employee talent
18 necessary to deliver safe and reliable service to customers at a reasonable cost. I also
19 demonstrate that the Company has prudently contained increases in labor costs since
20 the last rate case and, in particular, has kept increases in benefit costs at a reasonable
21 level that reflect the economic conditions.

1 **Q. What factors does the Company consider with respect to its compensation and**
2 **benefit costs?**

3 A. First, the Company's philosophy continues to be to keep operations and maintenance
4 and administrative and general costs under control to mitigate the impact on customer
5 rates of the increased levels of capital investment currently being made. Second,
6 while it is important to keep compensation and benefit costs under control, it is still
7 critical for the Company to be able to attract and retain competent and qualified
8 personnel to manage and operate the system. To do so, the Company continues to
9 ensure that its wage levels are aligned with the practices within the labor market. The
10 market continues to see a shift to having employees bear more of the cost of benefits.
11 The Company continues to shift the cost sharing and cost of plans to the employees
12 and facilitates adjustments to plan design to align with current market practices.

13 **TOTAL COMPENSATION**

14 **Q. What is the Company's compensation philosophy?**

15 A. Two fundamental principles underlie the Company's compensation philosophy. First,
16 the Company's primary goal in determining employee compensation is to provide pay
17 at or near the market average. Competitive compensation is critical to attracting and
18 retaining qualified employees. The market for the skilled positions required to
19 manage and operate a utility system is extremely competitive. Thus, the Company
20 endeavors to provide the same general pay levels and benefits in its total
21 compensation package as are included in the packages provided by others in the
22 industry. Providing total compensation at or near market levels results in reasonable
23 total compensation costs.

1 Second, to encourage superior performance, the Company places some
2 portion of each employee’s total compensation “at risk” and dependent upon
3 individual performance and achievement of a limited number of specific business
4 goals. I discuss in detail how this Annual Incentive Plan operates later in my
5 testimony.

6 **Q. How does the Company determine the total compensation package for each**
7 **position?**

8 A. Each of the Company’s positions has been assigned a grade within the Company’s
9 overall salary structure. At least annually, the Company collects market data for
10 comparable positions and calculates the average data point for total compensation for
11 each grade. Market data is provided through a variety of compensation studies
12 produced by experts/organizations, including AON Hewitt, Towers Watson, and
13 Mercer. In addition, the Company uses an on-line tool—“MarketPay.com.”
14 MarketPay.com provides electronic access to all of the compensation studies the
15 Company has traditionally used and some additional surveys, allowing more efficient
16 information searches and job and pay comparisons.

17 After the Company determines the appropriate level of total compensation for
18 a specific grade, it then determines the at-risk portion of the compensation for each
19 grade. The Company determines this portion by reviewing market compensation
20 using the various compensation studies described above. The at-risk portion is
21 typically in the 10 to 25 percent range; however, incentive pay for a few employees is
22 set as high as 75 percent. Generally speaking, the higher the position is within the
23 Company, the higher the amount of pay at risk and thus the higher the percentage of

1 potential incentive pay. The at-risk portion of compensation (referred to as “incentive
2 compensation”) is administered through the Annual Incentive Plan. The remaining
3 percentage of total compensation that is not at risk is referred to as “base
4 compensation.”

5 ANNUAL INCENTIVE PLAN

6 **Q. What is the objective of the Annual Incentive Plan?**

7 A. The objective of the Annual Incentive Plan is to provide each non-represented
8 employee with the incentive to perform at an above-average level. The plan is not a
9 bonus—additional (i.e., incentive) compensation is not layered upon base
10 compensation that is already at market levels to reach total compensation. Through
11 the process I discussed above, base compensation for each position is set at a level
12 below the market level for total compensation for that position. Only if an employee
13 performs at an acceptable level for the position will the employee have an opportunity
14 to earn total compensation at or near comparable positions in the market.

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

17 A. Yes. In the Company’s experience, a higher level of overall employee performance is
18 achieved when a portion of pay is at risk. In addition, the Company’s incentive
19 compensation plan enables the Company to attract and retain talented employees in
20 the increasingly competitive market for skilled labor. Therefore, while the total cost
21 of the Company’s base-plus-incentive compensation program is equal to what a
22 salary-only plan would be, the benefit to customers is greater.

1 **Q. How is the incentive compensation plan implemented?**

2 A. Before the distribution of the at-risk compensation dollars, senior Company
3 management assesses the Company's achievement of certain critical business goals
4 such as safety, customer satisfaction, and managing expenses in relation to revenues.
5 Underperformance by the Company in satisfying critical business goals may result in
6 a downward adjustment of the total pool of at-risk dollars available for distribution to
7 all Company personnel.

8 At approximately the same time, supervisors meet with each of the employees
9 in their group to conduct an assessment of the employee's performance throughout
10 the year against the employee's individual goals and other performance objectives.
11 The results of these performance reviews and associated scores are reported to
12 Human Resources.

13 After the total pool of at-risk compensation available for distribution has been
14 determined by senior management, supervisors are informed of the amount of
15 incentive compensation available for distribution within their group. Based on this
16 information, each supervisor submits the recommended incentive payments for each
17 employee in their group to Human Resources for review and consistency.

18 **Q. How does the Company ensure that an employee's individual goals are**
19 **consistent with overall business goals?**

20 A. Each year, the Company's senior management works to establish the overall goals for
21 the Company. All of these goals focus on delivering safe and reliable electricity to
22 our customers and providing excellent customer service. Goals include safety goals
23 such as reducing lost time, recordable, preventable, and restricted duty incidents.

1 Customer service goals include implementing local and regional customer service
2 improvements, improving visibility and relations with industrial customers and
3 consumer associations, and improving overall customer satisfaction. Other goals
4 relate to operating within established budgets, including maintaining operating costs,
5 controlling the cost of capital expenditures, and achieving operational efficiencies.
6 Still other goals relate to operational performance, major project delivery,
7 organizational planning and development, and quality of service and regulatory
8 commitments. The achievement of each and every one of these goals benefits
9 customers.

10 These Company-wide goals serve as the foundation for the goals set for each
11 individual employee. Thus, when an individual employee works with the employee's
12 supervisor to establish individual goals for the year, the goals are set by reference to
13 how that employee's position can advance the overall goals of the Company.
14 Performance on individual goals accounts for approximately 70 percent of an
15 employee's overall evaluation. In addition to performance against individual goals,
16 all employees are evaluated with reference to six performance factors. These
17 performance factors describe the characteristics the Company believes are important
18 to the success of all employees, *i.e.*, customer focus, job knowledge, planning and
19 decision-making, productivity, building relationships, and leadership. The employee's
20 performance with respect to these factors accounts for approximately 30 percent of
21 the employee's overall evaluation.

1 **Q. Why is it reasonable to include incentive compensation as well as base**
2 **compensation in rates?**

3 A. First, the incentive compensation amount is a legitimate business expense and results
4 in market-level compensation. By basing total compensation on market levels, the
5 Company is using an objective and accepted industry standard. The total
6 compensation amount does not become unreasonable simply because the Company
7 separates the total compensation in two parts.

8 Second, incentive pay allows the Company to recruit and maintain a qualified
9 labor force. If only the base compensation were included in rates, the compensation
10 amount in rates would be significantly below competitive market levels, and the
11 Company could not maintain and attract the workforce needed to provide safe and
12 reliable service if it only compensated employees at that level.

13 Third, the goals upon which employee performance is assessed are designed
14 to encourage superior performance on the part of the Company's employees to pursue
15 goals that directly benefit customers. These goals are safety, reliability, and customer
16 service. This is precisely the type of prudently designed incentive plan program that
17 provides direct benefits to customers and customers should therefore support.

18 Fourth, the incentive plan has been deliberately structured to avoid two
19 elements that regulators have identified as objectionable: (1) payment of the
20 incentive is not contingent upon the parent company, Berkshire Hathaway Energy
21 (BHE),¹ achieving a trigger profit level; and (2) there is zero probability that there
22 will be no payment at all under the Annual Incentive Plan, although the amount

¹ On April 30, 2014, MidAmerican Energy Holdings Company changed its name to Berkshire Hathaway Energy.

1 available for distribution in any year may be less than 100 percent of the level
2 indicated by the market data. The absence of these two elements is in contrast to
3 another incentive plan available to a few of the Company’s senior leaders, the Long-
4 Term Incentive Plan. The costs of that plan are not included in rates.

5 **Q. Please explain the level of incentive compensation that is included in this case.**

6 A. The level of incentive compensation included in this case is based on 2013 actuals,
7 escalated based on the pro forma wage increases applied to non-union wages. This
8 approach is consistent with the methodology used to determine wages and salaries for
9 the test year. As shown in the exhibit of Ms. Siores (see page 4.3.2 of Exhibit
10 No.__(NCS-3), this case includes a request for total-company incentive
11 compensation in the amount of \$38.0 million (\$26.5 million expense after
12 capitalization).

13 EXECUTIVE COMPENSATION

14 **Q. How does PacifiCorp make executive compensation decisions?**

15 A. PacifiCorp’s primary goal in setting total executive compensation is to attract and
16 retain highly qualified leaders who will create significant value for each of
17 PacifiCorp’s business units and PacifiCorp’s customers. For PacifiCorp’s named
18 executive officers (NEOs), the compensation programs are designed to provide
19 meaningful incentives for superior corporate and individual performance.² Decisions
20 are made based on performance, which is evaluated based on achievement of pre-
21 determined goals and other performance indicators. The goals are developed with the
22 objective of being attainable with a sustained, focused, and concerted effort. These

² The NEOs are Richard Patrick “Pat” Reiten, President and Chief Executive Officer (CEO) of Pacific Power; Richard A. Walje, President and CEO of Rocky Mountain Power; Micheal G. Dunn, President and CEO of PacifiCorp Energy; and Douglas K. Stuver, Senior Vice President and Chief Financial Officer of PacifiCorp.

1 goals are determined and communicated in January of each year. Goals are set within
2 a framework of six pre-determined goal areas, which are customer service,
3 operational excellence, regulatory integrity, financial strength, employee commitment
4 and safety, and environmental respect.

5 As a privately held corporation, PacifiCorp's executive compensation is
6 determined by BHE Chairman, Mr. Greg Abel. Mr. Abel establishes and oversees
7 PacifiCorp's executive compensation policy and approves compensation decisions for
8 NEOs, such as base pay increases, incentive and performance awards, off-cycle pay
9 changes, and participation in other employee benefit plans and programs. This
10 structure is comparable to other privately held corporations.

11 **Q. Does PacifiCorp set executive compensation levels based on compensation**
12 **provided at other investor-owned utilities?**

13 A. No. Mr. Abel determines executive compensation levels based on a variety of
14 performance factors and does not rely on third-party market data or data from other
15 investor-owned utilities when establishing compensation levels.

16 **Q. Please identify the value customers receive from the day-to-day activities of the**
17 **NEOs?**

18 A. The NEOs deliver both short- and long-term benefits to the business and its
19 customers. Through their business and industry knowledge and leadership, the NEOs
20 create a high-performing culture and organization as evidenced by:

- 21 • Significant employee safety performance improvement since 2006. In
22 2006, PacifiCorp's recordable rate was 3.30; as of December 31, 2013
23 PacifiCorp's recordable rate is 1.12.

- 1 • Marked improvement in our reliability and availability. From 2006
2 through the end of 2013, annual equivalent availability increased from
3 86.90 percent to 91.84 percent.
- 4 • Continuous improvement in customer satisfaction results. Since 2006, the
5 System Average Interruption Duration Index (SAIDI) improved by
6 24 percent and the System Average Interruption Frequency Index (SAIFI)
7 by 28 percent.
- 8 • Development of asset and system investment measures and plans to
9 support and sustain the Company's services via improvements in
10 transmission capabilities, advanced generating solutions (e.g., wind and
11 solar), and reliability and maintenance systems.

12 In all of their decisions, the NEOs' first priority is customers. The NEOs recognize
13 that the Company provides an essential service to customers, and the NEOs' focus is
14 on providing that service in the most reliable, efficient, safe, and cost-effective
15 manner. The NEOs' decisions are driven by customer, not shareholder, expectations.

16 **Q. Please address PacifiCorp's view on CEO compensation and views taken in the**
17 **marketplace about the levels and how they are set?**

18 A. Much of the scrutiny around CEO compensation is focused on the public sector
19 CEO's and the influence they have on financial results. PacifiCorp appreciates and
20 recognizes those concerns and, in consideration, approaches setting and evaluating
21 compensation levels by focusing on performance and direct benefits to customers.
22 PacifiCorp's approach is fair, reasonable, and appropriate.

1 **Q. Please describe the NEOs' Annual Incentive Plan?**

2 A. Each NEO is eligible to receive Annual Incentive Plan compensation based on
3 achievement of the pre-determined goals mentioned above, the performance of the
4 NEO's business unit, and PacifiCorp's performance on critical corporate objectives
5 such as measurements of employees' safety, measurements of customer satisfaction,
6 and balancing cost and investments with revenues available from operations. The
7 NEO's response to issues and opportunities that arise during the year is also
8 considered. No single factor is determinative of the amounts paid to each NEO under
9 the Annual Incentive Plan. As discussed above, the Annual Incentive Plan is not a
10 bonus; it is an integral portion of the total incentive compensation package. Annual
11 Incentive Plan is also determined based on PacifiCorp's objectives and is not a
12 function of BHE's financial results. When a NEO's performance is at expected levels
13 during the compensation year, the NEO receives an incentive payment. If
14 performance is below expected levels or not commensurate with the performance of
15 other NEOs, then the NEO will receive less or no incentive pay.

16 **Q. Does the compensation provided to employees benefit the Company's**
17 **customers? If so, please describe how.**

18 A. All employee compensation included in customer rates provides customer benefits.
19 A total compensation package that incentivizes performance is preferable to a base-
20 salary-only approach. The incentive compensation structure allows each individual
21 employee to focus on achievement of the six pre-determined goals previously
22 identified. The total compensation package is intentionally structured to separate the
23 elements of the package that have been determined by the Commission to be

1 recoverable in rates and beneficial to customers from those elements, such as Long-
2 Term Incentive Partnership Plan and the Supplemental Executive Retirement
3 Program, that are not recoverable in Washington rates.

4 **RETIREMENT PLANS**

5 **Q. Please describe the Company's retirement plan.**

6 A. The Company continues to strive to provide a competitive retirement plan offering
7 while at the same time reducing the volatility in expense tied to retirement plans to
8 benefit both the customer and employee. In doing so, the Company provides for non-
9 represented employees hired before January 1, 2008, the ability to receive their
10 retirement through either a cash balance or 401k-only design. All non-represented
11 employees hired after January 1, 2008, receive their retirement through the 401k-only
12 design approach. Retirement plan benefits for represented employees are determined
13 through the collective bargaining process, through which the Company has
14 maintained its focus to shift the retirement approach from the traditional defined
15 benefit to defined contribution (401k) approach.

16 **EMPLOYEE HEALTH BENEFITS**

17 **Q. Please describe the Company's health-care benefits.**

18 A. As with all benefits, the Company attempts to provide employees with the same level
19 of health-care benefits that are provided by the employers with whom the Company
20 competes for labor. This means offering employees what I would describe as market
21 average health benefits. And, of course, the Company seeks to provide these benefits
22 as economically as possible. The core benefits provided by the Company are health
23 and welfare, dental, vision, life insurance coverage, disability, and retirement.

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

3 A. The Company relies on the advice of its consultant, AON Hewitt, to ensure that it is
4 securing market-competitive benefits at the best possible rate. AON Hewitt is a
5 respected expert in its field that the Company has relied on for many years. With the
6 help of AON Hewitt, the Company periodically reviews and adjusts the sharing of
7 health-care-related costs with employees in an effort to stabilize cost, manage
8 volatility, and respond to changing market practices.

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

11 A. Yes. It is widely understood that health-care costs have been rising sharply over the
12 past several years. As a result, the Company experienced significant increases in its
13 health-care benefit costs.

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

15 A. Yes. Beginning in 2008, the Company made adjustments to the cost sharing and plan
16 design to reduce costs and to align with market practices. In particular, the Company
17 established a base medical plan with a high deductible and a cost sharing of 90/10,
18 which in 2013 was adjusted to 81/19. The Company continues to evaluate its plans
19 and designs. January 1, 2014, the Company began offering only the high deductible
20 plan with a health savings account as the medical plan, except in certain markets
21 where the Company continues to offer a Kaiser plan.

1 **Q. What is the Company's rationale for sharing health-care-related costs with**
2 **employees?**

3 A. This structural and design shifts adhere to the Company's goal of providing
4 competitive benefits to its employees, while doing so in a manner that is fair and
5 prudent for its customers.

6 **Q. Please explain the level of health-care costs included in this case and compare**
7 **that to previous fiscal year expenses.**

8 A. There has been a significant upward trend in health-care costs in recent years, but the
9 Company has been able to control its costs through successful management of its
10 programs, as discussed above. For calendar years 2010, 2011, 2012, and 2013 actual
11 health-care expenses totaled \$57.9 million, \$61.8 million, \$56.4 million, and
12 \$56.6 million respectively. As shown in Exhibit No.__(NCS-3), this case includes
13 \$56.6 million (\$39.5 million expense after capitalization) of total-company health-
14 care expenses based on 2013 actuals. This amount is \$2.3 million less (on a total-
15 company basis) than the \$58.9 million included in the Company's 2013 Rate Case.
16 AON Hewitt has informed the Company that current trends indicate the rates for the
17 Company's health benefits are anticipated to increase further in 2014 by between
18 eight and 10 percent.

19 **CONCLUSION**

20 **Q. Please summarize your testimony.**

21 A. Pacific Power has done an effective job of managing wage and benefit costs and has
22 taken steps to control these costs to the benefit of its customers. Total compensation
23 packages to employees, including benefits, are kept in line with market data and

1 changes have been implemented to keep benefit costs under control. Employee total
2 compensation packages are implemented in an effective manner through rigid goal
3 setting processes to achieve superior performance for our customers. As a result,
4 I urge the Commission to accept the Company's level of wage and benefit costs as
5 reasonable and prudent.

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

7 A. Yes.