

Exhibit No.\_\_(EDW-2)  
Docket UE-13\_\_\_\_  
Witness: Erich D. Wilson

**BEFORE THE  
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION**

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION,

Complainant,

vs.

PACIFICORP dba  
Pacific Power & Light Company

Respondent.

Docket UE-13\_\_\_\_

**PACIFICORP**

**EXHIBIT OF ERICH D. WILSON**

**Executive Officer Compensation Report**

**January 2013**



# **Executive Officer Compensation Report**

**Docket No. UE-111190**  
**Order 07**

**December 7, 2012**

## I. BACKGROUND

In Docket UE-111190, Order 07, PacifiCorp d/b/a Pacific Power & Light Company (PacifiCorp or the Company) agreed to provide an Executive Compensation Report to parties no later than 30 days before the Company's next general rate case filing:

PacifiCorp agrees to work with Public Counsel, and other parties if requested, to develop a report on executive compensation practices and accounting. The report will be provided to the parties no later than 30 days prior to the Company filing its next request for general rate relief. Two topics, (1) the appropriate level of executive compensation, and (2) the allocation of the costs associated with that compensation between ratepayers and shareholders, have arisen in recent rate cases involving all major electric utilities in Washington.<sup>1</sup>

In the stipulation adopted in Order 07, the parties agreed that the report should contain the following information:

- A description of current executive compensation, including but not limited to base salary, non-equity incentive pay, and incentive pay. This description should state what elements and amounts are included in rates for the Company and what elements and amounts are not recovered through rates.
- A description of how levels of executive compensation are set. This description should include discussion of the basis for selecting ostensibly comparable utilities that were surveyed, state what those survey results showed, and explain how the results relate to PacifiCorp. PacifiCorp is also required to state whether executive compensation paid by any Pacific Northwest investor-owned (e.g., Puget Sound Energy and Avista) or publicly-owned utilities (e.g., Seattle City Light, Tacoma Power, Public Utility District No. 1 of Snohomish County, and the Bonneville Power Administration) were considered and, if not, explain why not.
- A discussion of PacifiCorp's perspective on whether and why the existing levels of executive compensation are appropriate for recovery in utility rates.

The Company submits this report in compliance with the terms of the stipulation.

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<sup>1</sup> UE-111190, Order 07 at ¶51.

## II. SUMMARY

In compliance with the terms of the stipulation adopted in Order 07 in Docket No. UE-111190, this report provides an overview of executive compensation at PacifiCorp.

**Section III** of this report describes the Company's current executive compensation, including base salary and incentive pay, and how executive compensation is determined. This section also describes which elements of executive compensation are included and which elements are not included in customer rates.

**Section IV** of this report sets forth PacifiCorp's perspective on why the existing levels of executive compensation are appropriately included in customer rates.

### III. EXECUTIVE OFFICER COMPENSATION DESCRIPTION

#### A. Elements and Levels of Executive Compensation

The Company's primary goal in setting total executive compensation is to attract and retain highly qualified leaders who will create significant value for the Company and its customers. For the Company's Chief Financial Officer and Named Executive Officers<sup>2</sup> (collectively referred to as NEOs), the compensation programs are designed to provide meaningful incentives for superior corporate and individual performance. Performance is evaluated based on achievement of pre-determined goals and other performance indicators. The goals are developed with the objective of being attainable with a sustained, focused, and concerted effort. These goals are determined and communicated in January of each year. These six pre-determined goals are customer service, operational excellence, regulatory integrity, financial strength, employee commitment and safety, and environmental respect.

As a privately held corporation, PacifiCorp's compensation committee consists of MidAmerican Energy Holdings Company's (MEHC) Chairman, Mr. Greg Abel. MEHC's Chairman establishes and oversees the Company's executive compensation policy and approves compensation decisions for NEOs, such as base pay increases, incentive and performance awards, off-cycle pay changes, and participation in other employee benefit plans and programs. This structure is comparable to other privately held corporations.

The Company's criteria for assessing executive performance and determining compensation in any year is not based upon specific formulas or weighting of factors. Because compensation is based upon performance, the Company does not specifically use market comparisons or other companies as benchmarks when establishing the NEOs' compensation.

The Company encourages superior performance by placing a certain percentage of compensation "at risk." For NEO's, both the short-term incentive and long-term incentive portions of total compensation are at risk. Total NEO compensation for calendar year 2011 is set forth in Table 1 below.

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<sup>2</sup> The NEOs are Micheal G. Dunn, President and Chief Executive Officer of PacifiCorp Energy; R. Patrick Reiten, President and Chief Executive Officer of Pacific Power; A. Richard Walje, President and Chief Executive Officer of Rocky Mountain Power.

**Table 1**

<b>2011 Executive Officer Compensation</b>							
<b>NEO</b>	<b>Base Pay</b>	<b>Annual Incentive Plan</b>	<b>Perf. Award</b>	<b>LTIP</b>	<b>Total</b>	<b>Deferred Comp.</b>	<b>Other<sup>3</sup></b>
Micheal Dunn	\$278,820	\$275,000	\$0	\$195,000	\$775,320	\$13,750	\$26,500
Patrick Reiten	\$291,528	\$275,000	\$0	\$437,400	\$1,027,571	\$0	\$23,643
Richard Walje	\$368,000	\$200,000	\$0	\$372,259	\$972,935	\$0	\$32,676
Douglas Stuver	\$239,269	\$95,000	\$0	\$154,185	\$520,425	\$0	\$31,971

### **1. Base Salary**

The MEHC Chairman determines the base salary for each NEO by reviewing: the Company's overall performance and each NEO's individual performance, both on a long-term and short-term basis; the value each NEO brings to the Company; and current labor market conditions. While base salary provides a base level of compensation intended to be competitive with the external market, the annual base salary adjustment for each NEO is not based on target percentiles or other formal criteria. All base salary adjustments are approved by MEHC's Chairman and effective in the last payroll period of each year. An increase or decrease in base salary may also result from a promotion or other significant change in a NEO's responsibilities during the year.

### **2. Short-Term Incentive Compensation**

#### **a. Annual Incentive Plan**

Each NEO is eligible to receive short-term incentive (Annual Incentive Plan or AIP) based upon achievement of the pre-determined goals mentioned above, the performance of the NEO's business unit, and PacifiCorp's performance on critical corporate objectives such as measurements of employees' safety, measurements of customer satisfaction, and balancing costs/investments with revenues available from operations. The NEO's response to issues and opportunities that arise during the year is also considered. No single factor is determinative of the amounts paid to each NEO under the AIP. The AIP is not a bonus; it is an integral portion of the total incentive compensation package. AIP is also determined based on PacifiCorp's objectives and is not a function of parent company financial results. When an NEO's performance is at expected levels during the compensation year, the NEO receives an incentive payment. If performance is below expected levels or not commensurate with the performance of other NEOs, then the NEO

<sup>3</sup> Includes Company match on 401K contributions and a payment made to Micheal G. Dunn towards his deferred compensation account.

will receive less or no incentive pay. Approved awards are paid before the end of the year.

*b. Performance Awards*

In addition to the AIP, the Company may grant cash performance awards periodically during the year to acknowledge the accomplishment of significant non-recurring tasks or projects. These awards are discretionary and are approved by MEHC's Chairman. No performance awards were granted to any NEOs during 2011.

**3. Long-Term Incentive Partnership Plan (LTIP)**

A limited number of PacifiCorp executives are annually selected to participate in the Long-Term Incentive Partnership Plan (LTIP). The NEOs are all currently participants in this plan. LTIP is designed to retain and compensate executives that demonstrate the ability to contribute to the long-term value and efficient operation of the Company. The incentive is awarded in one year and vests over five years. The award is a cash award payable after fully vesting. The Company does not use stock options or other forms of equity-based awards. In recognition that the incentive is discretionary and dependent upon achievement of parent company financial targets, PacifiCorp does not include any of the costs of LTIP in rates.

**4. Other Employee Benefits**

*a. Supplemental Executive Retirement Plan*

The Supplemental Executive Retirement Plan (SERP) provides additional retirement benefits to participants. One NEO participates in SERP; there are no plans to add new participants in the future. The SERP provides monthly retirement benefits of 50 percent of final average pay plus one percent of final average pay for each fiscal year that the Company meets certain performance goals set for each fiscal year. The maximum benefit is 65 percent of final average pay. A participant's final average pay equals the 60 consecutive months of highest "pay" out of the last 120 months. "Pay" for this purpose includes salary and annual incentive plan payments.

*b. Deferred Compensation Plan*

The Executive Voluntary Deferred Compensation Plan (DCP) allows select employees, including the NEOs, to make voluntary deferrals of up to 50 percent of base salary and 100 percent of AIP or performance awards. DCP is included as part of the participating NEO's overall compensation to provide a comprehensive, competitive package. Amounts deferred under the DCP receive a rate of return based on the returns of any combination of eight investment options offered under the DCP and selected by the participant. The plan allows participants to choose from three forms of distribution and allows the Company to make discretionary contributions on behalf of participants. The deferrals and any investment returns grow on a tax-deferred basis.

## 2. Amount of Executive Officer Compensation Included in Washington Rates

All elements of compensation, except LTIP and SERP, have been and continue to be included in customer rates in Washington. These elements of executive compensation have been approved by the Washington Utilities and Transportation Commission (Commission) as a prudent business expense.

Table 2 below shows total NEO compensation for 2011, the Washington-allocated portion of NEO compensation, and the level of LTIP awards borne by shareholders.

**Table 2**

<b>2011 NEO Compensation Allocated to Washington</b>					
<b>NEO</b>	<b>Base Pay</b>	<b>Annual Incentive Plan</b>	<b>LTIP</b>	<b>Other</b>	<b>Total<sup>1</sup></b>
Micheal Dunn	\$278,820	\$275,000	\$195,000	\$26,500	\$775,320
Patrick Reiten	\$291,528	\$275,000	\$437,400	\$23,643	\$1,027,571
Richard Walje	\$368,000	\$200,000	\$372,259	\$32,676	\$972,935
Douglas Stuver	\$239,269	\$95,000	\$154,185	\$31,971	\$520,425
<b>Total NEO Compensation</b>	<b>\$1,177,617</b>	<b>\$845,000</b>	<b>1,158,844</b>	<b>\$114,790</b>	<b>\$3,296,251</b>
<b>Washington Allocation (6.943%)<sup>2</sup></b>	<b>\$80,586</b>	<b>\$57,824</b>	<b>\$0</b>	<b>\$7,855</b>	<b>\$146,265</b>
<b>Shareholders' Portion</b>			<b>\$1,158,844</b>		<b>\$1,158,844</b>

<sup>1</sup> Total compensation does not reflect reductions for non-utility and capitalization.

<sup>2</sup> Washington allocation derived using the system overhead (SO) factor.



#### **IV. WHY EXECUTIVE COMPENSATION IS APPROPRIATELY INCLUDED IN WASHINGTON RATES**

PacifiCorp management firmly believes that all employee compensation included in customer rates provides customer benefits. A total compensation package that incentivizes performance is preferable to a base salary only approach. The incentive compensation structure allows each individual employee to focus on achievement of the six pre-determined goals previously identified in this report. The total compensation package is intentionally structured to separate the elements of the package that have been determined by the Commission to be recoverable in rates and beneficial to customers from those elements (LTIP and SERP) not recoverable in Washington rates for various reasons. Accordingly, LTIP and SERP are excluded from Washington rates.