

Exhibit No.____(EDW-1T)
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

DIRECT TESTIMONY OF ERICH D. WILSON

January 2013

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

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.

6 **Qualifications**

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

8 A. I received a Bachelor degree in Economics (Business) from the University of
9 California, San Diego, in 1992. In addition, I achieved Certified Compensation
10 Professional status from the American Compensation Association in 1999 and
11 have kept this certification current by attending various educational programs and
12 seminars. Before coming to the Company, I held various positions in the area of
13 human resources (operations, benefits, and staffing), but for the majority of my
14 career I have directed the design and administration of compensation programs.
15 I joined the Company in 2001 as Director of Compensation. I assumed my
16 current position as Director, Human Resources, in 2006.

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

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

1 **Purpose 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 at the Company and to support the costs
5 related to these areas included in the test period.

6 **Q. Does your testimony 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
9 Company's non-union workforce. The Company's union workforce and the
10 compensation and benefit plans provided to them are governed by their respective
11 collective bargaining agreements. These agreements are reached between the
12 Company and each union to provide market-level competitive compensation,
13 benefits, and work rules.

14 **Q. Please provide an overview of your testimony.**

15 A. This testimony focuses on the total compensation plan (consisting of base pay and
16 annual incentive), pension plan, and health care benefit plans. These plans are
17 designed to allow the Company to attract and retain the employee talent necessary
18 to deliver safe and reliable service at a reasonable cost. I also demonstrate that
19 the Company continues to control increases in labor and benefit costs. Moreover,
20 increases in benefit costs have been maintained at a reasonable level that reflects
21 the economic conditions and market.

1 **Total Compensation**

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

4 A. First, the Company is continually working to keep operations and maintenance
5 and administrative and general costs under control to mitigate the impact on
6 customer rates. Second, while it is important to keep compensation and benefit
7 costs under control, it is still critical for the Company to be able to retain and
8 attract competent and qualified personnel to manage and operate the system. To
9 do so, the Company aligns its wage levels with the labor market. The challenges
10 facing the economy have resulted in wage increase levels below what had been
11 seen in prior periods. This is evident by the Company's wage increase levels in
12 2009 of 1.0 percent to 1.75 percent, and in 2010 and 2011 of 2.0 percent
13 compared to previous levels in the 3.0 to 4.0 percent range. The level
14 implemented in 2012 was 2.0 percent and the actual level beginning in January
15 2013 is 2.25 percent. In addition, the market continues to see a shift to employees
16 bearing more of the cost of benefits. Accordingly, the Company continues to shift
17 a greater percentage of the cost of benefit plans to its employees.

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

19 A. Two fundamental principles underlie the Company's compensation philosophy.
20 First, the Company's primary goal in determining employee compensation is to
21 set pay levels at or near the market average. Competitive compensation is critical
22 to attracting and retaining qualified employees. The market for the skilled
23 positions required to manage and operate a utility system is extremely

1 competitive. Thus, the Company endeavors to provide the same general pay
2 levels and benefits in its total compensation package as are included in the
3 packages provided by others in the industry. The Company believes that
4 providing total compensation at or near market levels results in reasonable total
5 compensation costs.

6 Second, the Company believes that in order to encourage superior
7 performance, some portion of each employee's total compensation must be "at
8 risk" and dependent upon individual performance and achievement of a limited
9 number of specific business goals. I discuss in detail how this Annual Incentive
10 Plan operates later in my testimony.

11 **Q. How does the Company determine the total compensation package for each
12 position?**

13 A. Each of the Company's positions has been assigned a grade within the Company's
14 overall salary structure. At least annually, the Company collects market data for
15 comparable positions and calculates the average data point for total cash
16 compensation for each grade. Market data is provided through a variety of
17 compensation studies produced by experts/organizations, including Aon Hewitt,
18 Towers Watson, and Mercer. The Company also uses an online tool called
19 "MarketPay.com." MarketPay.com provides electronic access to all of the
20 compensation studies the Company has traditionally used and some additional
21 surveys, allowing the Company to more efficiently perform information searches
22 and job and pay comparisons.

1 After the Company determines the appropriate level of total cash
2 compensation for a specific grade, it then determines the “at risk” portion of the
3 compensation for each grade. The Company sets the “at risk” portion by
4 reviewing market compensation using the various compensation studies described
5 above. The “at risk” portion is typically in the 10-25 percent range; however,
6 incentive pay for a few employees is set as high as 75 percent. Generally
7 speaking, the higher the position is within the Company, the higher the amount
8 of pay at risk, and thus the higher the percentage of potential incentive pay. The
9 “at risk” portion of compensation (referred to as “incentive compensation”) is
10 administered through the Annual Incentive Plan. The remaining percentage of
11 total compensation is referred to as “base compensation.” This base-plus-
12 incentive compensation structure is the same as the structure approved by the
13 Commission in the Company’s 2010 general rate case, docket UE-100749, and
14 presented by the Company in its 2011 general rate case, docket UE-111190.

15 **Annual Incentive Plan**

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

17 A. The objective of the Annual Incentive Plan is to provide employees with an
18 incentive to perform at an above-average level. The plan is not a bonus; the
19 incentive compensation is not layered upon base compensation that is already at
20 market levels. As discussed above, base compensation for each position is set at a
21 level below the market level for total compensation for that position. Only if an
22 employee performs at an acceptable level for the position will the employee earn
23 total compensation at or near comparable positions in the market. If an employee

1 fails to perform at an acceptable level, the employee will receive less than the
2 target incentive or no incentive at all. When this occurs, the employee will be
3 paid less than the comparable total cash compensation in the market for that year.
4 Conversely, for exceptional performance, an employee may receive above his or
5 her target incentive level.

6 The ability to earn a higher-than-target incentive payment provides the
7 employee with an incentive to exceed average performance. This opportunity is
8 an essential counterbalance to the risk the employee faces that his or her
9 performance in a particular year will be less than acceptable, with the
10 consequence that total compensation will be less than market in that year. The
11 symmetry of the incentive element provides the Company with the financial tool
12 to encourage exceptional performance and discourage less than acceptable
13 performance.

14 **Q. Does incentive compensation benefit customers?**

15 A. Yes. Customers benefit from the higher level of overall employee performance
16 that is achieved when a portion of employees' pay is "at risk." In addition, the
17 Company's incentive compensation plan enables the Company to attract and
18 retain talented employees in the increasingly competitive market for skilled labor,
19 which also benefits customers. Therefore, while the total cost of the Company's
20 compensation program (base plus incentive) is equal to average total cash
21 compensation (just as a salary-only program would be), the benefit to customers
22 is greater.

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

2 A. First, before the distribution of the “at risk” compensation dollars, senior
3 Company management assesses the Company’s achievement of certain critical
4 business goals such as safety, customer satisfaction, and managing expenses in
5 relation to revenues. Under-performance by the Company in satisfying critical
6 business goals may result in a downward adjustment of the total pool of “at risk”
7 dollars available for distribution to all Company personnel. For example, the
8 Company’s under-performance in satisfying one or more of these goals resulted in
9 reduction in the total amount of incentive compensation available for distribution
10 to 85 percent in 2010, 87 percent in 2011, and 85 percent in 2012.

11 At approximately the same time that the Company’s achievements are
12 being evaluated, supervisors meet with each of the employees in their group to
13 conduct an assessment of the employee’s performance throughout the year against
14 the employee’s individual goals, the employee’s performance against group goals
15 (including safety goals), and the employee’s success in addressing new issues and
16 opportunities that may arise during the year. The results of these performance
17 reviews are reported to Human Resources.

18 Then, after the total pool of “at risk” compensation has been determined
19 by senior management, supervisors are informed of the amount of incentive
20 compensation available for distribution within their group. Based on this
21 information, each supervisor submits the recommended incentive payments for
22 each employee in their group to Human Resources for review.

1 **Q. What are an employee's individual goals and how are they set?**

2 A. Individual goals start with the goals set for the Company as a whole. Each year,
3 the Company's senior management, in conjunction with MidAmerican Energy
4 Holdings Company, set the overall goals for the Company. These goals focus on
5 delivering safe and reliable electricity to customers and providing excellent
6 customer service.

7 Goals include safety goals, such as reducing lost time, recordable,
8 preventable, and restricted duty incidents. They also include customer service
9 goals, such as implementing local and regional customer service improvements,
10 improving visibility and relations with industrial customers and consumer
11 associations, and improving overall customer satisfaction. Some goals relate to
12 operating within established budgets, maintaining operating costs, controlling the
13 cost of capital expenditures, and achieving operational efficiencies and financial
14 targets that allow the Company to remain a low-cost utility. Other goals relate to
15 operational performance, major project delivery, organizational planning and
16 development, quality of service, and regulatory commitments. The achievement
17 of each and every one of these goals benefits our customers.

18 **Q. How do the Company goals relate to individual employee goals?**

19 A. The Company-wide goals serve as the foundation for the goals set for each
20 individual employee. Thus, when an individual employee establishes individual
21 goals for the year, the employee focuses on how that employee's position can
22 advance the overall goals of the Company. The employee's performance on
23 individual goals accounts for approximately 70 percent of his or her overall

1 evaluation. In addition to performance against individual goals, all employees are
2 evaluated using six performance factors. These performance factors describe the
3 characteristics the Company believes are important to the success of all
4 employees—customer focus, job knowledge, planning and decision making,
5 productivity, building relationships, and leadership. These factors account for
6 approximately 30 percent of the employee’s overall evaluation.

7 **Q. Are any of the employees judged on the financial performance of the**
8 **Company?**

9 A. No. While all employees are expected to operate within applicable budgets,
10 corporate financial performance and returns are not a factor in determining the
11 amount of incentive compensation awarded under the plan. The Company does
12 maintain a separate plan for executives (the Long-Term Incentive Partnership
13 Plan) that bases awards on overall corporate performance; however, these costs
14 are not recovered in customer rates.

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

17 A. The Company is proposing to include the annual incentive in the test year with
18 pro forma wage increases that have or are projected to occur during the 12-month
19 period ending June 2013, which recognizes that the pool of incentive
20 compensation made available was reduced below 100 percent in 2011 and 2012.
21 As shown in the exhibit of Mr. Steven R. McDougal (see page 4.3 of Exhibit
22 No.____(SRM-3)), this case includes a request for total-company incentive

1 compensation in the amount of \$26.3 million (\$18.1 million after capitalization).
2 The Washington portion of this expense is approximately \$1.7 million.

3 **Q. Does the Company recommend including annual incentive compensation in**
4 **rates?**

5 A. Yes, for several reasons. First, customers should fully support the cost of
6 incentive compensation because, as previously mentioned, it is an essential
7 component of an overall market-based competitive compensation program.
8 Reducing customer support for incentive pay would result in under-market
9 salaries, making it impossible for the Company to recruit and maintain a qualified
10 labor force, which would in turn make it impossible for the Company to provide
11 safe and reliable service. Moreover, the goals of the plan are designed to
12 encourage superior employee performance in pursuing the goals that directly
13 benefit customers—safety, reliability, and customer service. This is precisely the
14 type of prudently designed incentive plan program that provides direct benefits to
15 customers and that customers should therefore support.

16 **Retirement Plans**

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

18 A. The Company strives to provide a competitive retirement plan offering with
19 reduced expense volatility for the benefit of employees and customers. The
20 Company provides non-represented employees hired before January 1, 2008, the
21 ability to receive their retirement through either a cash balance or 401k only
22 design. This choice was offered in 2008, and 41 percent of the eligible employee
23 population elected the 401k design. All non-represented employees hired after

1 January 1, 2008, receive retirement through the 401k design approach.

2 Retirement plan benefits for represented employees are determined through the
3 collective bargaining process, where the Company has maintained its focus to
4 shift the retirement approach from the traditional defined benefit to defined
5 contribution (401k) approach.

6 **Q. Are there increases in costs related to retirement program offerings?**

7 A. No. As shown in the exhibit of Mr. McDougal (see page 4.3 of Exhibit
8 No.__(SRM-3)), the Company has included actual costs for the 12 months ended
9 June 2012 with no escalation or adjustments.

10 **Employee Health Benefits**

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

12 A. As with all benefits, the Company attempts to provide employees with the same
13 level of health care benefits provided by the employers with whom the Company
14 competes for labor. For the Company, this means offering employees market
15 average health benefits. The Company seeks to provide these benefits as
16 economically as possible.

17 **Q. How does the Company determine that it is providing these competitive
18 benefits as economically as possible?**

19 A. The Company relies on the advice of its consultant, Aon Hewitt, to confirm that it
20 is securing market competitive benefits at the best possible rate. Aon Hewitt is a
21 respected expert in the field, and the Company has relied on this expertise for
22 many years. In consultation with Aon Hewitt, the Company periodically reviews

1 and adjusts the sharing of health-care-related costs with employees in an effort to
2 stabilize cost, manage volatility, and respond to changing market practices.

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

5 A. Yes. It is widely understood that health care costs have been rising over the past
6 several years. As a result, the Company continues to experience increases in its
7 health care benefit costs.

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

9 A. Yes. Beginning in 2008, the Company has been making adjustments to cost
10 sharing and plan design to reduce costs and to align with market practices.
11 Employees are shouldering a larger share of the costs. In particular, in 2012 and
12 2013, the Company had a base medical plan with a high deductible and a cost
13 sharing of 84/16. The Company continues to offer other medical plan choices,
14 but, except for a \$600 deductible plan that is offered in rural areas, these plans are
15 set at a cost sharing of 70/30. In addition, in 2012, the Company implemented a
16 higher cost sharing component for all covered dependents; in 2013 that level is
17 further increased. All new hires as of January 1, 2008, have the option of
18 selecting the high deductible plan or opting out of coverage.

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

21 A. This structural shift adheres to the Company's goal of providing competitive
22 benefits to its employees, while doing so in a manner that is fair and helps to
23 control costs.

1 **Q. Please explain the level of health care costs included in this filing and**
2 **compare that to previous fiscal year expenses.**

3 A. As discussed above, there has been an upward trend in health care costs in recent
4 years. For calendar years 2009, 2010, and 2011, actual total-company health care
5 expenses totaled \$57.9, \$57.9, and \$61.8 million respectively. Consistent with
6 this trend, the Company has included in this filing health care expenses on a total-
7 company basis of \$58.9 million (\$40.5 million after capitalization), as shown in
8 Exhibit No.__(SRM-3).

9 Along with these increases, Aon Hewitt has informed the Company that
10 current trends indicate the rates for the Company's health benefits are anticipated
11 to increase annually by a range of eight to 10 percent. This is driven by the
12 demographics and claims experience of our workforce. This projected increase is
13 not included in this case. The Company continues to work to mitigate these
14 increases through plan design and overall cost sharing with employees.

15 **Q. Has the Company made changes to the retiree medical plan that affect the**
16 **FAS 106 post-retirement benefits other than the pension costs included in**
17 **this case?**

18 A. Yes. The Company implemented benefit design changes to the post-retirement
19 welfare plans. These changes help to offset the other areas of cost increases that
20 I have addressed, to the benefit of customers.

21 **Q. Please explain the changes.**

22 A. Health care reform legislation is causing many employers, including the
23 Company, to change their approach to retiree health care benefits. With recent

1 changes to Medicare, individual plans have become more widely available and
2 affordable. These changes, which were effective January 1, 2012, not only
3 provide a savings to the customers through reduced expense, but also provide
4 more flexibility to the retiree to choose from a variety of plan options to select the
5 coverage that works best for them. Instead of the monthly subsidy structure, the
6 Company now provides an annual contribution to a health reimbursement account
7 that can be managed by the retiree and used to pay for the care and services
8 received.

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

10 A. Yes.