



**TOWERS  
PERRIN**

HR SERVICES

# **PacifiCorp**

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## **Executive Compensation Review**

February 11, 2005

## **Table of Contents**

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- A. Background
- B. Competitive Analysis Assumptions and Methodology
- C. 2005 Compensation Adjustments

- Exhibit 1: Summary of Position Matches for Competitive Analysis
- Exhibit 2: Comparison of Best Estimate Competitive Compensation
- Exhibit 3: Bonus Level Comparison
- Exhibit 4: Long-Term Incentive Comparison
- Exhibit 5: Current vs. Competitive Compensation Levels

- Appendix A: Survey Sources
- Appendix B: Survey Position Descriptions

## **A. Background**

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- The purpose of this analysis is to determine competitive levels of base salary, total annual compensation and long-term incentives for selected PacifiCorp executives and develop recommendations for adjusting current cash compensation levels.
- We provide data for the PacifiCorp CEO and nineteen additional PacifiCorp executives.

## B. Competitive Analysis Assumptions and Methodology

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- We gathered competitive data from multiple survey sources representing energy services companies and general industry. Our analysis was primarily based on group or subsidiary companies with approximately \$3 - \$4 billion in revenue scope.
- Positions were matched on the basis of their functional responsibilities. Discounts or premiums were applied where there were significant differences between PacifiCorp and survey positions. *Exhibit 1* shows the survey matches and scope information used in the analysis.
  - *Appendix A* contains a list of survey sources we used for the analysis.
  - *Appendix B* includes survey position descriptions for matches used in the analysis.
- For PacifiCorp corporate positions, we present both energy services and general industry competitive data.
- We collected median (50th percentile) data for base salaries and total cash compensation. All survey data were updated to January 2006 by an annualized factor of 4.0 percent to account for different collection and publication dates among survey sources.

## B. Competitive Analysis Assumptions and Methodology

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- Competitive total direct compensation data shown in *Exhibit 2* reflect competitive total cash plus the expected value of long-term incentive awards for each position.
  - We collected unit or group level competitive data for all positions with the exception of the Group Director, HR and Energy Risk Director.
  - We understand that the Group Director, HR and Energy Risk Director have responsibility for the entire scope of Scottish Power operations, hence we have matched these positions to corporate-level survey positions with the full scope of Scottish Power revenue (approximately \$10.6 billion).
- Competitive base salaries and total cash compensation decreased slightly or stayed relatively constant compared to last year's analysis for a number of benchmark positions.
  - Because it is uncommon for companies to decrease base pay for ongoing incumbents, we believe these decreases are likely due to changes in the data sample (including both number and type of survey participants) as well as modest pay increases over the last year.
  - Overall, we believe market base salary rates and target bonus opportunities for ongoing incumbents remained relatively consistent over the previous year.

## **B. Competitive Analysis Assumptions and Methodology**

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- Long-term incentive expected values also decreased from last year's analysis.
- While the information can vary on a position-by-position basis, overall energy services and general industry expected values are, on average, 10% lower than the previous year's.
  - These findings are consistent with market-place trends, and we believe the lower values are generally due to the growing trend away from stock options to more full value long-term incentive vehicles such as restricted stock (companies often apply some discount to previous/competitive expected values to reflect the additional downside protection provided by full value shares).
  - PacifiCorp's plan to introduce restricted stock reflects this market trend.

## C. 2005 Compensation Adjustments

- *Exhibit 3* shows competitive actual bonus payout percents and target bonuses for competitive positions and PacifiCorp targets.
- *Exhibit 4* shows PacifiCorp's May 2004 long-term incentive awards and competitive energy services and general industry long-term incentive levels.
- The table below summarizes PacifiCorp's overall market positioning among both energy services and general industry organizations.
  - This positioning generally reflects last year's findings.

	PacifiCorp's Positioning versus Market <sup>1</sup>	
	Energy Services	General Industry
<b>Base Salary</b>	≈ 50 <sup>th</sup> %ile	≈ 50 <sup>th</sup> %ile
<b>Total Cash Compensation</b>	Above 50 <sup>th</sup> %ile (+10%)	≈ 50 <sup>th</sup> %ile
<b>Total Direct Compensation<sup>2</sup></b>	≈ 50 <sup>th</sup> %ile	Below 50 <sup>th</sup> %ile (-15%)

<sup>1</sup> Average positioning for all PacifiCorp jobs. Please see Exhibits for competitive positioning for individual jobs.

<sup>2</sup> Sum of total cash compensation and long-term incentive expected value.

## C. 2005 Compensation Adjustments

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- The best estimate base salary levels in *Exhibit 5* represent the best estimate of competitive base salaries calculated as follows:

$$\text{Competitive Total Cash Compensation} \div (1 + \text{PacifiCorp Current Target Incentive}) \\ = \text{Best Estimate Base Salary}$$

- Please note that this methodology is not common. Organizations typically adjust pay levels for individual compensation elements based on a combination of factors, including the competitiveness of each and the organization's overall rewards philosophy, especially target positioning and mix.
- Recommended base salary increases, target cash incentives and maximum cash incentives will be developed by PacifiCorp.



## Appendix A: Survey Sources

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- Towers Perrin, *Energy Services Industry Executive Compensation Database*, 2004
- Towers Perrin, *Executive Compensation Database*, 2004
- Interwest Mining Company, *Coal Administrative Survey*, 2004

## Appendix B: Survey Position Descriptions

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### **Sector Head (Johansen)**

Sector Head has primary responsibility for a major segment of the company's line operations. Typically this is an EVP- or Vice Chairman-level position and reports to either the CEO or COO of the parent company. Typically has a significant role in overall corporate strategy/policy formulation. Through subordinate executives is responsible for multiple profit centers/ business units. This position may also be responsible for staff functions.

### **Top Nonregulated Business Executive (Hudgens)**

Top Nonregulated Business Executive has primary responsibility for the growth and profitability of all the organization's nonregulated businesses. Develops and secures approval for the organization's strategic plan to expand nonregulated operations. Nonregulated business activities may include energy management services and energy-related products, as well as businesses that are not energy related. Manages nonregulated operations directly or through subordinate managers. Typically a member of the senior management team.

### **Top Human Resources Executive (Pittman, Wah)**

Top Human Resources Executive has primary responsibility for design and implementation of all human resource policies (including labor relations). For noncorporate positions, this code typically connotes execution and administration of policies within a segment of the company. In highly decentralized companies, responsibilities could also include policy design at the division/subsidiary level.

### **Top Financial Executive (Peach)**

Top Financial Executive has primary responsibility for the financial plans and policies of the organization, including establishment and maintenance of fiscal controls, preparation and interpretation of financial report, and safeguarding of the organization's assets. Develops and maintains overall accounting policies and controls. Responsible for establishing and maintaining good corporate relations with the investment and banking communities. Assists in long-range planning. Advises senior management on financial affairs.

## **Appendix B: Survey Position Descriptions**

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### **Top Strategic Planning Executive (MacRitchie)**

Top Strategic Planning Executive has primary responsibility to develop and secure approval for the organization's strategic plan. This typically includes environmental scans, analysis of organizational positioning and other studies to ensure the successful growth of the company

### **Top Power Generation and Delivery Executive (Wright)**

Top Power Generation and Delivery Executive is the highest-level operations executive responsible for generation, transmission and substations. Responsible for all engineering, construction or construction project management, maintenance and operations, and all levels of electrical system planning. May also be responsible for environmental science/affairs and fuel procurement. This position is not responsible for division/district operations.

### **Top Power Generation Executive (Cunningham)**

Top Power Generation Executive is responsible for planning and directing the operation, maintenance and general administration of the organization's fossil-fueled power plants to achieve efficient and reliable generation of electricity. Recommends major additions, modifications and retirement of power generation facilities. This position is not responsible for nuclear facilities.

### **Top Corporate Affairs Executive (Furman)**

Top Corporate Affairs Executive has primary responsibility to design and implement policies and programs to enhance the public reputation of the organization, to direct the development and management of an integrated communications function (internally and externally), and to represent the company in legislative and regulatory matters. May also be responsible for community relations.

## **Appendix B: Survey Position Descriptions**

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### **Top Legal Executive (Haller)**

Top Legal Executive serves as chief legal adviser of the company; counsels management on the legal implications of all company activities and problems; provides legal services as required in judicial proceedings; keeps abreast of legislative and administrative regulatory developments. Obtains the services of outside counsel as required to complement available internal legal resources.

### **Single Profit Center Head – Regulated (Watters)**

Single Profit Center Head (Regulated) has primary responsibility for the overall profitability of a single regulated organization unit such as a subsidiary utility president or geographical profit center head. Responsibilities typically include transmission, distribution, customer service and marketing. Executives with responsibility for only one segment of the overall operation, such as transmission and distribution, should be reported as the top executive for that segment (i.e., Top Transmission and Distribution Systems Executive, Top Power Generation and Delivery Executive, Top Marketing, Sales and Customer Service Executive). Use this job code specifically for subsidiary executives, geographical center heads, or other profit center heads that cannot be matched to other functional jobs. Typically reports to the Top Regulated Business Executive.

### **Chief Information Officer (Walje)**

Chief Information Officer has primary responsibility for the strategic direction of the company's information technology resources, including telecommunications and office automation. Identifies changes in computer and systems technology, communicates these changes to senior management, and develops overall information strategy to meet the organization's needs and goals. Provides support to information users and determines information needs throughout the organization. Develops strategies to meet organizational needs and identifies systems software and hardware necessary for the successful integration of information systems. This position may also be responsible through subordinate staff for the operations of technology functions on a day-to-day basis.

## **Appendix B: Survey Position Descriptions**

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### **Treasurer (Williams)**

Treasurer has primary responsibility for management of the treasury, banking and insurance activities of the company. Responsible for the care and custody of the organization's cash and other financial assets and for banking operations and relationships. Determines the amount and sources of funds required to meet outstanding and planned commitments. May supervise insurance/risk management positions.

### **Top Customer Service Executive (Nelson)**

The Top Customer Service Executive designs and implements the programs needed to maintain good relations with the organization's customers by providing services to handle customer claims and complaints; serves as liaison with sales, marketing and other line personnel. Responsibilities typically include billing, customer accounting, customer inquiries, meter reading, and credit and collection.

### **Top Coal Company Executive (Jense)**

Top Coal Company Executive is responsible for the overall leadership, direction, control and profitability of the company (unit, division or subsidiary). Is the position with the highest or principal level of authority as respects the coal company (unit, division or subsidiary). Reports to Board of Directors if free-standing company, or if a unit, division or subsidiary, reports to the President & CEO (or COO, or possibly, Executive Vice President) in the parent organization.

### **Top Federal Regulatory Executive/ Top State & Local Regulatory Executive (Larson)**

Top Federal Regulatory Affairs Executive serves as the liaison with federal regulators and advises management of new developments in this area. This incumbent is not located in Washington, D.C.

Top State/Local Regulatory Affairs Executive serves as the liaison with state and local regulators and advises management of new developments in this area.

## **Appendix B: Survey Position Descriptions**

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### **Top Public Relations Executive (Sherrard-Smith)**

Top Public Relations Executive has primary responsibility to design and implement policies and programs to enhance the public reputation of the organization. Initiates programs that ensure the public's understanding of the organization's goals and achievements. This position is not responsible for representing the organization in legislative or regulatory matters.

### **Top Risk Management/Derivatives Trading Executive (Klein)**

The Top Risk Management/Derivatives Trading Executive has primary responsibility for overseeing market (electricity and/or natural gas) and operations risk. Ensures that the risks are fully assessed, valuation of products is appropriate, and transactions are priced to compensate for risks incurred. Ensures adherence to risk management policies and procedures. Establishes procedures to provide for accurate and timely monitoring and reporting of daily risk exposure and capital at risk using appropriate quantification and valuation methodologies. Approves structured and complex transactions and designs customized hedges using derivative securities (i.e., swaps, futures, options).

### **Top Environmental Affairs Executive (Wessman)**

Top Environmental Affairs Executive has primary responsibility to ensure that the organization is in compliance with all regulations that affect the environment. This includes establishing corporate-wide policies and programs that comply with regulations and ensuring overall compliance at all sites and laboratories. Specific policies would include clean air and disposal of hazardous waste.