

1 **Q. Please state you name, business address and present position with PacifiCorp**
2 **(the Company).**

3 A. My name is Erich D. Wilson. My business address is 825 N.E. Multnomah, Suite
4 1800, Portland, Oregon 97232. My present position is Director of Compensation.

5 **Qualifications**

6 **Q. Briefly describe your education and business experience.**

7 A. I have been employed as the Director of Compensation since March 2001 in the
8 Human Resources Department. Prior to coming to PacifiCorp, I held various
9 positions within Human Resources (Operations, Benefits and Staffing); but for the
10 majority of my career I have been directing the design and administration of
11 compensation programs. I received a Bachelor's degree in Economics (Business)
12 from the University of California at San Diego in 1992. In addition, I achieved
13 Certified Compensation Professional status from the American Compensation
14 Association (ACA) in 1999 and have kept this certification current through
15 attending various educational programs and seminars.

16 **Q. Briefly describe your current duties.**

17 A. My primary responsibilities are to ensure that the Company attracts, retains and
18 motivates qualified employees. To this end, I am responsible for overseeing the
19 design and administration of the Company's compensation programs including:
20 base salary, short and long term incentives, international compensation, relocation
21 and performance management. This involves analyzing competitive pay
22 practices; establishing and administering pay programs that will allow the
23 Company to compete successfully for labor; motivating employees to perform at

1 the highest levels and rewarding them for such performance; and retaining
2 qualified and strong performing employees.

3 **Purpose of Testimony**

4 **Q. What is the purpose of your rebuttal testimony?**

5 A. The purpose of my testimony is to rebut adjustments proposed by Commission
6 Staff witness Huang and ICNU witness Schoenbeck that (1) reduce the amount of
7 incentive compensation expense included in PacifiCorp's revenue requirement in
8 this proceeding and (2) reduce allowed expenses related to employees on
9 International Assignment through the Company's International Assignment
10 program. I will discuss each of these issues in order.

11 **Incentive Compensation**

12 **Q. As background for your rebuttal, would you please briefly describe**
13 **PacifiCorp's compensation philosophy and approach and the related Annual**
14 **Incentive Compensation Plan program?**

15 A. Yes. PacifiCorp's philosophy is to design, develop and administer compensation
16 programs to attract, motivate, develop and retain a highly qualified workforce, all
17 in support of the Company's strategic goals. At present, the compensation plan
18 targets total cash compensation at the average for the markets in which we
19 compete. Our compensation programs are designed to:

- 20 ? Reinforce the Company's strategies and objectives
- 21 ? Be flexible and responsive to changes in business conditions
- 22 ? Be market-focused

23 PacifiCorp uses the Market Pricing approach to job evaluations. This approach

1 consists of the process of collecting and analyzing external market data for roles,
2 disciplines, and levels to determine competitive market base salaries and
3 incentives.

4 **Q. Please describe the Company's Annual Incentive Plan (AIP) program.**

5 A. Our Annual Incentive Program, which is designed to enable us to achieve our
6 philosophy of delivering market competitive total cash compensation, is
7 structured as follows:

8 **Plan Objectives:**

9 ? To motivate and reward employees for strong individual contribution as well
10 as business unit and company performance;

11 ? To continue to align our pay programs with our strategies and objectives; and

12 ? To drive and achieve Company performance that will enable us to deliver
13 superior service to our customers

14 **Eligibility:**

15 ? Each employee has a set maximum incentive level which is based on a two
16 times multiple of target (as set by competitive market data).

17 ? For the test year, the award structure is based on the following weighting:

18 ? 20 percent of maximum based on performance against defined
19 objectives of the *PacifiCorp Scorecard*;

20 ? 30 percent of maximum based on performance against defined
21 objective of the appropriate *Business Unit Scorecard*; and

22 ? 50 percent of maximum based on *Individual Performance*.

1 **Balanced Scorecards:**

2 For the Company, each main business unit and corporate function, the balanced
3 scorecard sets out where leverage can best be applied to maximize the value the
4 business unit can bring to supporting the Company's objectives from four
5 perspectives: financial, customer/stakeholder, employee and process. These
6 value levers are then used in setting the key objectives for the business unit that
7 will also drive each employee's own personal objectives. Each perspective is
8 weighted in its importance to the business unit's contribution. For example, in a
9 customer-focused business unit, the weighting given to the customer perspective
10 will be proportionately high.

11 **Q. What adjustment does Staff witness Huang propose to make to PacifiCorp's**
12 **test year incentive compensation expense?**

13 A. Ms. Huang proposes to reduce the Company's incentive compensation expense by
14 50 percent to reflect what she characterizes as financial performance targets that
15 primarily benefit shareholders.

16 **Q. Do you agree with Ms. Huang's testimony that the PacifiCorp Annual**
17 **Incentive Plan in design has significant weight/percentage of maximum**
18 **award tied to corporate earnings and Business Unit financial performance?**

19 A. I disagree in the amount of the award that she represents as being tied to corporate
20 earnings and financial performance. Eighty percent of the AIP (30 percent
21 Business Unit and 50 percent Individual performance) is based on line of sight
22 goals, with the emphasis being on improving operations and efficiency. The
23 remaining 20 percent is based on the performance objectives of PacifiCorp's

1 scorecard, which are tied in part to financial targets. However, even the
2 PacifiCorp scorecard emphasizes improving customer satisfaction, process and
3 employee satisfaction.

4 **Q. Turning first to the PacifiCorp scorecard, is her characterization accurate?**

5 A. No. On page 11, line 3, she references “Scoreboard,” which should be
6 “Scorecard.” She also states that the PacifiCorp scorecard is based on Earnings
7 Before Interest and Taxes (EBIT). EBIT is only one objective of the scorecard,
8 however, which comprises many different objectives making up all four
9 perspectives. Page 2 of Exhibit No.__(EDW-2) shows the elements of the
10 PacifiCorp scorecard. Ms. Huang also states that a certain percent of EBIT target
11 must be met, otherwise the scorecard rating will be zero. For incentive purposes,
12 the EBIT objective makes up only one-half of the 20 percent attributable to the
13 PacifiCorp scorecard (or 10 percent of the overall award). The other objective
14 which makes up the remaining one-half is related to customer service
15 standards/survey results. Each objective is scaled with a minimum performance
16 level required. If this level is not achieved, that objective will result in a zero for
17 that objective. The examples stated which make up EBIT are independent
18 objectives – and not in addition to EBIT – for incentive purposes under the
19 PacifiCorp scorecard.

20 **Q. Is her characterization of the Business Unit scorecard correct?**

21 A. No. On page 11, line 15, Ms. Huang states that the financial elements are tied to
22 EBIT, the Company’s cash flow position, and earning up to the allowable rate of
23 return. Not all the objectives within the various Business Unit Scorecards are tied

1 to these stated results, however. This is apparent from page 1 of my Exhibit
2 No.__(EDW-2), which shows that more than 93 percent of annual incentive pay
3 is based on individual and Business Unit line-of-sight goals. The pages that
4 follow in Exhibit No.__(EDW-2) contain a full view of each Business Unit
5 scorecard.

6 Ms. Huang also states that the “Process” objectives are to ensure that
7 filings or cost can be recovered through the regulatory process and that this, along
8 with the financial perspective, make up one-half of the Business Unit incentive
9 component. In fact, the “Process” perspective is made up of objectives that are
10 geared towards improving operational efficiency for linkage to customer benefit.
11 Although there are some objectives within the Regulatory Business Unit
12 scorecard that are Regulatory process related, these are again intended to drive to
13 a more efficient and accurate outcome so as to benefit the customer. It should
14 also be noted that the combination of the Financial and Process perspective
15 weightings vary by Business Unit, as is apparent from a review of the weightings
16 of the various Business Units shown in Exhibit No.__(EDW-2).

17 **Q. How about Ms. Huang’s characterization of the Individual Performance**
18 **category?**

19 A. Ms. Huang states that management may award a discretionary percentage up to 50
20 percent per employee. It is true that the Individual Performance category makes
21 up 50 percent of the individual’s incentive opportunity. The award, however, is
22 based on a performance rating which is determined after considering performance
23 against clearly defined line of sight goals (as set forth at the beginning of the

1 fiscal year) which are focused on operational and customer service/improvement.
2 As part of the Individual Performance award, 30 percent is based on the
3 employee's performance against the key behaviors (Customer Service, Team
4 Work, Initiative, Continuous Improvement and Delivery). Ms. Huang incorrectly
5 stated that this 30 percent was based on customer service.

6 **Q. Ms. Huang recommends that one half of the awarded AIP should be**
7 **excluded from Washington rates. Do you agree?**

8 A. No. She arrived at her 50 percent exclusion by simply adding the 20 percent
9 attributable to the PacifiCorp scorecard and the 30 percent attributable to the
10 Business Unit scorecards. As discussed above, her disallowance of the entire
11 PacifiCorp scorecard disregards the customer service elements on this scorecard,
12 which are quite apparent from a review of page 2 of Exhibit No.__(EDW-2).
13 Similarly, she has disallowed the entire portion attributable to the Business Unit
14 scorecards, without performing any detailed analyses of the individual elements in
15 the various Business Unit scorecards, which are included at pages 3 through 16 of
16 Exhibit No.__(EDW-2). The vast majority of these individual elements serve
17 customer interests, not shareholders', and no explanation has been provided for
18 summarily rejecting the Business Unit portion of AIP.

19 A detailed analysis of each of the line items in the PacifiCorp scorecard
20 and in the Business Unit scorecards shows that only a very small portion of the
21 listed objectives arguably advance shareholders', rather than customers', interests.
22 As indicated on page 1 of Exhibit No.__(EDW-2), over 93 percent of the AIP
23 pay-out relates to customers' interests. This strongly suggests that no adjustment

1 is warranted, and certainly no adjustment in the range of the 50 percent
2 disallowance proposed by Ms. Huang.

3 **International Assignees**

4 **Q. What are the adjustments relating to International Assignees?**

5 A. Both Ms. Huang and Mr. Schoenbeck make certain adjustment related to the
6 personal taxes paid on behalf of international assignees.

7 **Q. Why does the Company pay taxes on behalf of international assignees?**

8 A. As part of the Company's international mobility policy/program, U.S. taxes on
9 company-earned income are paid on behalf of the international assignee. This is
10 in direct response to the double taxation of income by the U.S. and the home
11 country, and the need to ensure that the employee's liability in relation to tax on
12 Company-earned income and benefits, while on assignment, remains broadly
13 equivalent to the amount due had the employee remained in the home country.

14 **Q. Do you agree with Ms. Huang's adjustment?**

15 A. No. First, she incorrectly claims that personal taxes were "paid" to international
16 assignees. U.S. taxes are paid *on behalf of* the assignees directly to the
17 appropriate revenue departments; no taxes are paid directly to the assignees.
18 Second, the international mobility policy is based on being market competitive
19 while enabling the Company to share and gain knowledge of other country's
20 practices and to promote effective use of employee talent. These activities enable
21 the Company to develop the business and be more efficient and effective, thereby
22 benefiting the customer. I therefore disagree with the proposed adjustment to
23 taxes paid on behalf of the assignees during the stated test period.

1 **Q. What about Ms. Huang's adjustment to disallow club dues paid on behalf of**
2 **international assignees?**

3 A. We do not dispute this adjustment, and therefore will remove these expenses from
4 consideration.

5 **Q. What is Mr. Schoenbeck proposing with respect to international assignees?**

6 A. He proposes to disallow the payment of personal income tax preparation fees for
7 these employees.

8 **Q. Do you agree with his adjustment?**

9 A. No. The tax preparation cost paid by the Company is to ensure that the employee
10 and Company are in compliance with the tax and social security requirements of
11 both the home and host country's governments. It is essential that the Company
12 has counsel on taxation of assignment income and benefits. Taxes owed and paid
13 by or on behalf of the employee have a direct bearing on the Company's reporting
14 of income earned, and therefore the associated Company required tax payments.

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

16 A. Yes.