

Exhibit No.\_\_\_\_(EDW-1T)  
Docket Nos. UE-061546/UE-060817  
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 No. UE-061546

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In the Matter of the Petition of  
PACIFICORP dba Pacific Power & Light  
Company,  
For an Accounting Order Approving Deferral  
Of Certain Costs Related to the MidAmerican  
Energy Holdings Company Transition.

Docket No. UE-060817

**PACIFICORP  
REBUTTAL TESTIMONY  
OF  
ERICH D. WILSON**

**March 2007**

1 **Introduction and Purpose of Testimony**

2 **Q. Please state your name, business address and present position with**  
3 **PacifiCorp “the Company”.**

4 A. My name is Erich D. Wilson. My business address is 825 N.E. Multnomah, Suite  
5 1800, Portland, Oregon 97232. My present position is Director, Human  
6 Resources.

7 **Qualifications**

8 **Q. Please summarize your education and business experience.**

9 A. I have been employed as the Director of Human Resources since March 2006.  
10 From March 2001 to March 2006, I was the Director of Compensation for  
11 PacifiCorp. Prior to coming to PacifiCorp, I held various positions within the  
12 area of Human Resources (Operations, Benefits and Staffing). For the majority of  
13 my career I have directed the design and administration of compensation  
14 programs. I received a Bachelor’s degree in Economics (Business) from the  
15 University of California at San Diego in 1992. In addition, I achieved the  
16 Certified Compensation Professional status from the American Compensation  
17 Association (ACA) in 1999 and have kept this certification current through  
18 attending various educational programs and seminars.

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

20 A. My primary responsibilities include managing PacifiCorp’s human resource  
21 function, including compensation, benefits, compliance, staffing, training and  
22 development, employee and labor relations, and payroll. I focus on assisting the  
23 Company in attracting, retaining and motivating qualified employees along with

1 the administration of all associated human resource programs and employee  
2 experiences.

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 Mr. Thomas Schooley and Industrial Customers of Northwest  
7 Utilities' witness Ms. Kathryn Iverson that would reduce or eliminate the  
8 severance payments for which the Company has sought recovery through its  
9 accounting petition, and that would reduce the amount of compensation expense,  
10 medical cost sharing and pension expense (as associated with the company's shift  
11 in formula design to a cash balance approach) included in PacifiCorp's revenue  
12 requirement in this proceeding.

13 **Background**

14 **Q. As background for your rebuttal, please briefly describe PacifiCorp's  
15 compensation and benefits philosophy.**

16 A. The philosophy of PacifiCorp, and its parent MidAmerican Energy Holdings  
17 Company, is to provide a total compensation and benefits package which enables  
18 an employee to receive compensation and benefits comparable to the average  
19 provided by our competitors for labor when an employee performs at an  
20 acceptable level. Employees will earn less than the average remuneration when  
21 performance is less than acceptable and, conversely, will earn higher than the  
22 average remuneration when performance is better than desired levels. The  
23 Company's objective is to generally provide the same components in our total

1 remuneration package as are included in the packages provided by our  
2 competitors for labor. This allows us to attract and retain the quality of employee  
3 necessary to provide the high level of service demanded by and owed to our  
4 customers, without incurring excessive or unreasonable labor costs.

5 When reviewing any expenses associated with any single portion of this  
6 compensation package, it is essential to recognize that each portion is part of an  
7 integrated total package. The total compensation package must be viewed as a  
8 whole.

9 **Q. How does the Company determine the compensation portion of the total**  
10 **compensation and benefits package for each job?**

11 A. At least annually, the Company collects market data for comparable jobs and  
12 calculates the average data point for total cash compensation. We then separate  
13 the total cash compensation portion into two elements. The first element is base  
14 salary. The second element is an “at risk” or incentive element. In evaluating the  
15 compensation portion of the total compensation and benefits package, these two  
16 elements must be considered together. If either portion is eliminated, an  
17 employee would not be compensated at a market level.

18 **Q. Please describe the incentive element of the compensation portion of**  
19 **PacifiCorp’s compensation and benefits package as it existed in the test**  
20 **period.**

21 A. The intent of the incentive element is to put some of the competitive total  
22 remuneration “at risk.” If an employee performs at an acceptable level for the  
23 position, the incentive amount (referred to as the target incentive) will allow the

1 employee to earn compensation comparable to other similar positions in the  
2 market. If an employee fails to perform at an acceptable level, the employee will  
3 receive less than the target incentive or no incentive at all. When this situation  
4 occurs, the employee will be paid less than the comparable total cash  
5 compensation in the marketplace for that year. Conversely, for exceptional  
6 performance, an employee may receive up to two times the target incentive.

7 **Q. What are the objectives of the incentive element of the compensation portion**  
8 **of the total package?**

9 A. The upside opportunity provides the employee with an incentive to exceed  
10 performance that is merely acceptable. This opportunity is an essential  
11 counterbalance to the risk the employee faces if the performance in a particular  
12 year is less than acceptable; the consequence will be that total compensation is  
13 less than market in that year. The symmetry of the incentive element provides the  
14 Company with the financial tool to encourage exceptional performance and  
15 discourage less-than-acceptable performance. As would be expected from a well-  
16 designed, symmetrical plan, the average incentive element is approximately at the  
17 target incentive level.

18 **Q. How is the plan structured?**

19 A. Each employee has a set maximum incentive level which is based on a two times  
20 multiple of target, as set by competitive market data. The award is structured on  
21 the following weighting:

- 22 ♦ 10% of maximum based on performance against defined objectives of  
23 the PacifiCorp scorecard;

- 1                   ♦ 30% of maximum based on performance against defined objectives of
- 2                   the appropriate business unit scorecard; and
- 3                   ♦ 60% of maximum based on individual performance.

4 **ICNU Adjustments**

5 **Q. Please describe Ms. Iverson's proposed adjustments to the compensation**  
6 **portion of PacifiCorp's total compensation and benefits package.**

7 A. Ms. Iverson proposes two separate adjustments related to the incentive element of  
8 the compensation portion of the package. First, she proposes to exclude 100  
9 percent of the executive incentive cost. Second, she proposes to reduce the non-  
10 executive expense by 50 percent.

11 **Q. Do you agree with her proposed adjustment to the incentive elements of the**  
12 **package?**

13 A. No. Ms. Iverson's adjustments would exclude from legitimate business expenses  
14 the costs of the total compensation and benefits package that have not been  
15 demonstrated to be unreasonable. Moreover, she has not even attempted to  
16 demonstrate that the costs of the total compensation and benefits package are  
17 unreasonable. Finally, acceptance of her adjustments would be saying that our  
18 employees should be compensated at a level below the market, with no  
19 opportunity to earn at or above the market.

20 **Q. What is Ms. Iverson's rationale for proposing to disallow the executive**  
21 **compensation costs?**

22 A. She contends that it would be inappropriate to include the executive incentives  
23 because she believes it constitutes additional compensation. Ms. Iverson is

1 incorrect. As I have already explained, the incentive element is not a "bonus"; it  
2 is an integral portion of a complete and symmetrical compensation package.  
3 Without that element, the compensation package is not compensatory or at  
4 market.

5 As described previously in my rebuttal testimony, the incentive plan was  
6 structured to deliver a target incentive level for achieving performance objectives,  
7 and this target level maintains the positions' competitiveness within the  
8 marketplace. Awards received above these stated target levels are for exceptional  
9 performance, as previously described. As employees rise to positions of greater  
10 responsibility within the Company, their compensation is structured such that a  
11 higher percentage of their total compensation is at risk. Customers receive  
12 benefits from having exceptional individuals leading the organization, and it is  
13 appropriate for the Company to seek recovery of the executive incentive levels.  
14 Disallowance of executive compensation puts the Company at a disadvantage  
15 relative to other comparable employers with regard to their ability to attract and  
16 retain an exceptional executive management team.

17 **Q. How do you respond to Ms. Iverson's second adjustment, relating to non-**  
18 **executive incentive expense?**

19 A. Ms. Iverson also proposes an adjustment to the non-executive incentive expense  
20 by reducing the level by 50 percent. Again, I do not agree with this proposal or  
21 the reasoning. Over the past few years, there has been a significant shift by  
22 companies to deliver compensation of all employees in the form of both base pay  
23 and incentive. In addition to this market-based shift in compensation philosophy,

1 much of the emphasis on measuring employee performance is linked to safety and  
2 reliability. Contrary to Ms. Iverson's testimony, the balanced scorecards are not  
3 tied to corporate performance, and this is evident by viewing the objectives  
4 outlined in each scorecard. See Exhibit No.\_\_(EDW-2) for examples of  
5 scorecards. These objectives are set forth to improve our operational  
6 effectiveness, customer satisfaction and safety. Any reduction beyond the  
7 competitive target incentive level would place the Company in a position of not  
8 being able to offer competitive pay levels and placing operational and customer  
9 objectives at risk. With the overall performance results being above targets on the  
10 scorecards (operational and customer objectives), the Company should receive  
11 recovery of incentive expenses incurred during the test year.

12 **Q. Please describe Ms. Iverson's proposed adjustment to PacifiCorp's medical**  
13 **health care benefits.**

14 A. Ms. Iverson proposes adjusting the benefits expense to reflect a larger  
15 contribution from employees (average of 22%) as based on survey data provided  
16 by Towers Perrin and Hewitt Associates on a total industry-wide basis.

17 **Q. Do you agree with Ms. Iverson's testimony that PacifiCorp's medical health**  
18 **care benefits should be adjusted to reflect a larger contribution from**  
19 **employees?**

20 A. No. Ms. Iverson states that surveys indicate that employee contributions are  
21 approximately 22 percent on a total industry-wide basis. I am not aware of what  
22 industries are included in these referenced surveys. PacifiCorp has recently  
23 engaged Hewitt Associates to review market practices in this area, and the results



1 show that for the utility industry, which is where we compare our programs to, the  
2 overall employer subsidy is 84 percent for all plans in 2006. In response to the  
3 changing market practices, PacifiCorp established a cost sharing tiered approach  
4 requiring employees earning greater than \$100,000 to contribute 20 percent,  
5 employees earning between \$60,000 and \$100,000 to contribute 15 percent, and  
6 employees earning less than \$60,000 to contribute 10 percent. This change is the  
7 start of a movement to have all employees at an 80/20 cost sharing level. This  
8 level will be achieved and the Company will be at one tier (80/20) effective  
9 January 1, 2008.

10 A key driver behind the Company's decision to shift the cost sharing  
11 structure is based on the continued rise in medical cost/rates impacting the  
12 Company. The upward trend in rates can be seen in our budgeting of rates over  
13 the past three years. For FY05 it was \$41.5m, test year \$43.8m, for CY06 it was  
14 \$49.9m and for CY 2007 it is \$60.8m. Rates are anticipated to increase further in  
15 2008 by between 9-11 percent as Hewitt has informed us that our plans are  
16 trending at these levels. Shifting our structure as previously outlined passes more  
17 of the increasing expense on to our employees rather than the customers.  
18 Therefore, taking an average of total industry rather than actual and industry  
19 specific would be punitive and neither prudent nor in line with market practices  
20 during the test period. To apply an increased sharing to an historical expense level  
21 is selective and asymmetric. If such a change is made it should be updated to  
22 reflect more recent cost levels.

1 **Q. Please describe Ms. Iverson's proposed adjustment to PacifiCorp's pension**  
2 **expense.**

3 A. Ms. Iverson proposes adjusting the FAS 87 pension expense to reflect an average  
4 expense from fiscal years 2005 and 2006. This proposed adjustment results in a  
5 reduction of \$13.3 million and a jurisdictional adjustment for Washington of \$1.0  
6 million.

7 **Q. What basis does Ms. Iverson have for her proposed adjustment?**

8 A. Ms. Iverson cites the Company's announced changes to its defined benefit  
9 pension plan. She then assumes that "PacifiCorp is doing so in order to reduce  
10 both its expenses as well as the uncertainty regarding its pension requirements."  
11 Finally, she speculates that the changes to the pension plan may result in pension  
12 expenses in the future being "significantly lower than the test period amounts."

13 **Q. Do you agree with Ms. Iverson's testimony that PacifiCorp's pension expense**  
14 **should be adjusted to reflect an average of the 2005 and 2006 fiscal years'**  
15 **expenses thereby resulting in a lower expense related to the formula (cash**  
16 **balance) changes scheduled for implementation on June 1, 2007?**

17 A. No. Ms. Iverson recognizes that the change in Company expense by going to a  
18 cash balance formula beginning in June, 2007 is not known and measurable at this  
19 time. She therefore utilizes the \$86m referenced in Exhibit ICNU 3.4-1 in her  
20 calculation for adjustment. Ms. Iverson's calculation is intended to compare  
21 historical expense levels during fiscal years 2005 and 2006 to those expected for  
22 the new pension formula. However, by using the \$86m as a baseline amount for  
23 fiscal year 2006, she is overstating the expense related to the pension as this

1 number includes IBEW 57 pension, SERP and post retirement/employment  
 2 benefits (FAS 106 and 112). The expense of these plans will not be impacted by  
 3 the change to a cash balance approach in the pension plan. In Exhibit ICNU 3.4-  
 4 1, the actual comparative value to the cash balance expense would be SAP  
 5 account 501100 (pension – FAS 87) with a value of \$48.4m. Pension expense  
 6 has been growing rapidly over the past few years, the following chart shows the  
 7 increase in expense since the test year:

Test Period	CY 06 (annualized)	CY 07
\$48.4m	\$56m	\$60.6m

8 Applying an average of years prior to the test period understates the expense the  
 9 Company is incurring by providing these competitive benefits to its employees  
 10 and therefore it is my position that the expense as reflected in ICNU 3.4-1 of  
 11 \$48.4m is appropriate and should not be adjusted.

12 **Q. Please describe Ms. Iverson's proposed adjustment to PacifiCorp's severance**  
 13 **expense as filed in this test period.**

14 A. Ms. Iverson states that severance cost incurred by PacifiCorp in its transition to  
 15 MEHC ownership should not be borne by the customers and should not be  
 16 included in base rates.

17 **Q. Do you agree with Ms. Iverson's testimony that PacifiCorp should not**  
 18 **recover severance expense due to the transition to MEHC?**

19 A. No. Ms. Iverson provides no rationale for excluding this cost. There are two  
 20 reasons why I believe this adjustment should not be accepted. First, PacifiCorp  
 21 provides a severance plan to its employees as a means of maintaining its

1 competitive market position, which as I stated previously, enables the Company  
2 to attract and retain the labor needed to provide operational and customer  
3 service/efficiencies. Secondly, the severance plan states that severance is to be  
4 provided to employees in the event of a change in control. The definition for plan  
5 purposes was triggered at the time of the signing of the Stock Purchase  
6 Agreement (May 23, 2005) and actions taken from that period forward were done  
7 so with the intent and purpose of more efficiently structuring the organization so  
8 as to better serve our customers. Therefore, it is my position that the \$9.3m of  
9 severance cost based on the amortization of \$27.9m is appropriate and should not  
10 be adjusted.

#### 11 **Commission Staff Adjustments**

12 **Q. What adjustment does Mr. Schooley propose to make to PacifiCorp's request**  
13 **for deferred severance expense?**

14 A. My testimony addresses Mr. Schooley's proposal where he proposes that the  
15 severance expenses of employees covered by the Executive Severance Plan be  
16 reduced to the same percentage of benefits as received by employees under the  
17 plan for non-executives.

18 **Q. Do you agree with Mr. Schooley's adjustment to reduce the costs associated**  
19 **with the Executive Severance Plan?**

20 A. No. As I stated earlier, the Company has an overall compensation philosophy of  
21 providing and designing compensation to align to the competitive market average  
22 and does so to enable the attraction, retention and motivation of the skills needed  
23 to deliver efficient and effective service to its customers. Severance programs are

1 one element of the Company's competitive approach.

2 Mr. Schooley's adjustment represents an inappropriate micro-management  
3 of the Company's compensation structure, without any supporting rationale or  
4 analysis. It is highly common for a company to have a severance plan for its  
5 broad-based employee population and an enhanced program for its executives.  
6 This circumstance is neither surprising nor unique to the Company. Senior  
7 executives are at greater risk of termination in the event of a change in control,  
8 and it is a necessary part of their compensation package that these risks be  
9 addressed through appropriate severance arrangements. Moreover, senior  
10 executives are likely to need more time than the broad-based employee population  
11 to secure a comparable position with another employer. The Company has  
12 assessed its program against the market by working with M Benefit Solutions  
13 (previously named MCG Northwest). Attached is Confidential Exhibit  
14 No. \_\_\_(EDW-3C), which outlines the 2002 study performed by M Benefit  
15 Solutions and used by the Company to confirm its program design. Consistent  
16 with this competitive market information, the Company should be allowed to  
17 recover expenses paid per plan design for both the executive and broad based  
18 employee population. In the absence of recovery, the Company is placed in a  
19 position of designing an offering which is not competitive, jeopardizing its ability  
20 to attract and retain the talent required to effectively conduct its business.

21 **Q. Does this conclude your testimony?**

22 A. Yes.