

1 **Q. Please state your name, business address and present position with**
2 **PacifiCorp (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, Human
5 Resources.

6 **Qualifications**

7 **Q. Please briefly describe your educational and professional background.**

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

18 **Q. Please describe your present duties.**

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

1 **Purpose of Testimony**

2 **Q. What is the purpose of your testimony?**

3 A. The purpose of my testimony is to provide a general overview of the
4 compensation plans provided to employees at the Company and support the costs
5 related to these areas included in the test period. This overview focuses on the
6 Company's base pay and annual incentive plans. These plans are designed to
7 allow the Company to attract and retain the employee talent necessary to deliver
8 safe and reliable service at a reasonable cost.

9 **Q. How do the total labor costs in this case compare to the Company's last
10 general rate case, Docket UE-090205 (2009 Rate Case)?**

11 A. The current total labor costs demonstrate that costs have remained relatively flat
12 from the 2009 Rate Case to the current rate case. The table below shows that the
13 total wage and benefit expense in this case for the twelve-months ended
14 December 31, 2009, has increased by less than one half of one percent as
15 compared to labor costs in the 2009 Rate Case.

	2010 Rate Case Test Period <u>December 31, 2009</u>	2009 Rate Case Test Period <u>June 30, 2008</u>	<u>Change</u>
Wage & Benefit Expense	\$508,136,677	\$506,310,695	0.4%

16 **Background**

17 **Q. As background, please briefly describe the Company's compensation
18 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

1 provide pay at the market average. Competitive compensation is critical to
2 attracting and retaining qualified employees in a market that is becoming
3 extremely competitive, and allows the Company to do so without incurring
4 excessive or unreasonable costs. Thus, the Company endeavors to provide the
5 same general pay levels and components in its total compensation package as are
6 included in the packages provided by its competitors for labor.

7 Second, the Company believes that in order to encourage superior
8 performance, a certain percentage of each employee's market compensation must
9 be "at risk." Accordingly, under the Company's Annual Incentive Plan (AIP),
10 each employee has the opportunity to receive total compensation at the market
11 average, so long as the employee performs at an acceptable level. However,
12 employees will earn less than the average compensation when performance is less
13 than acceptable and, conversely, will earn higher than the average compensation
14 when performance is exceptional.

15 **Total Compensation**

16 **Q. How does the Company determine the total cash compensation package for**
17 **each position?**

18 A. At least annually, the Company collects market data for comparable jobs and
19 calculates the average data point for total cash compensation for each position.
20 To do so, the Company uses a variety of compensation studies put out by various
21 experts/organizations, including Hewitt Associates, Towers Watson, and Mercer.
22 In addition, in 2008 the Company acquired access to an on-line tool called
23 MarketPay.com. MarketPay.com provides electronic access to all of the

1 compensation studies traditionally used and some additional surveys, allowing the
2 Company to more efficiently perform information searches and job and pay
3 comparisons.

4 After the Company determines the appropriate level of total cash
5 compensation for a position, it then determines the portion of that compensation
6 that will constitute the “at-risk” portion, which is the “target” incentive pay. The
7 Company sets the “at-risk” portion by reviewing market compensation using the
8 various compensation studies described above. The “at-risk” portion is typically
9 in the 10-25 percent range; however, incentive pay for a few employees is set as
10 high as 75 percent. Generally speaking, the higher the position is within the
11 Company, the higher the percentage of target incentive pay. The remaining
12 percentage of total compensation is referred to as “base compensation.”

13 **Annual Incentive Plan**

14 **Q. What is the objective of the AIP?**

15 A. The objective of the AIP is to provide employees with incentive to perform at an
16 above average level. This is achieved by putting a percentage of the competitive
17 total compensation “at risk.” If an employee performs at an acceptable level for
18 the position, the employee will receive the target incentive amount which will
19 allow the employee to earn compensation comparable to similar positions in the
20 market. If an employee fails to perform at an acceptable level, the employee will
21 receive less than the target incentive or no incentive at all. When this situation
22 occurs, the employee will be paid less than the comparable total cash
23 compensation in the marketplace for that year. Conversely, for exceptional

1 performance, an employee may receive above his or her target incentive level.

2 The ability to earn a higher-than-target incentive payment provides the
3 employee with an incentive to exceed average performance. This opportunity is
4 an essential counterbalance to the risk the employee faces that his or her
5 performance in a particular year will be less than acceptable, with the
6 consequence that total compensation will be less than market in that year. The
7 symmetry of the incentive element provides the Company with the financial tool
8 to encourage exceptional performance and discourage less than acceptable
9 performance. As would be expected from a well-designed, symmetrical plan, the
10 average incentive element is approximately at the target incentive level.

11 **Q. Is incentive compensation a greater benefit to customers than compensation**
12 **consisting solely of base compensation?**

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

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

21 A. The Company's AIP provides performance awards based on the following: (1) the
22 employee's performance against individual goals; (2) the employee's performance
23 against group goals including safety goals; and (3) success in addressing new

1 issues and opportunities that may arise during the course of the year. All non-
2 represented employees are eligible to participate in the AIP.

3 **Q. What are the individual goals and how are they set?**

4 A. Individual employee goals start with the goals set for the Company as a whole.
5 Each year, the Company President, in conjunction with MidAmerican Energy
6 Holdings Company, sets the overall goals for the Company. These goals focus on
7 delivering safe and reliable electricity to customers and providing excellent
8 customer service. Goals include safety goals such as reducing lost time,
9 recordable, preventable, and restricted duty incidents. Customer service related
10 goals include implementing local and regional customer service improvements,
11 improving visibility and relations with industrial customers and consumer
12 associations, and improving overall customer satisfaction. Some goals relate to
13 operating within established budgets, including maintenance and operating costs,
14 controlling the cost of capital expenditures, and achieving operational
15 efficiencies/financial targets, which help the Company control its costs. Other
16 key goals relate to operational performance, major project delivery, organizational
17 planning and development, and quality of service and regulatory commitments.
18 The achievement of each and every one of these goals will serve to benefit
19 customers.

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

21 A. These Company-wide goals are used not only to evaluate the president's
22 performance, but they also serve as the foundation for the goals set for each
23 individual employee. Thus, when an individual employee sets his or her own

1 individual goals for the year, they are set by reference to how that employee's
2 position can advance the overall goals of the Company. The employee's
3 performance on individual goals accounts for approximately 70 percent of his or
4 her overall evaluation.

5 **Q. What are the group goals?**

6 A. In addition to performance against individual goals, all employees are evaluated
7 against six common or "group" goals. These group goals describe the
8 characteristics the Company believes are important to the success of all
9 employees, *i.e.*, customer focus, job knowledge, planning and decision making,
10 productivity, builds relationships and leadership. Detailed descriptions of these
11 characteristics are provided as Exhibit No.__(EDW-2). The employee's
12 performance with respect to these group goals accounts for approximately 30
13 percent of the employee's overall evaluation.

14 **Q. Explain the third category.**

15 A. In the course of any one year, challenges will arise that were not contemplated by
16 the goals set at the beginning of the year. For instance, the Company may
17 become involved in a significant transaction, such as a purchase or sale, or the
18 Company may contend with unexpected outage conditions. In these cases, some
19 percentage of the employee's evaluation may reflect his or her performance under
20 these unforeseen conditions.

21 **Q. Are any of the employees judged on the financial performance of the**
22 **Company?**

23 A. No. While all employees are expected to operate within applicable budgets,

1 corporate financial performance and returns are not a factor in determining the
2 amount of incentive compensation awarded under the plan. The Company does
3 maintain a separate plan for executives that awards bonuses based on overall
4 corporate performance; however, the Company does not ask customers to absorb
5 the costs associated with that plan.

6 **Q. Please explain the level of incentive compensation that you have included in**
7 **this application.**

8 A. This application includes a request for total-Company incentive compensation
9 based on the twelve-months ended December 31, 2009 of approximately \$29.8
10 million. This is based on the actual incentive compensation for employees
11 participating in the incentive plan during the twelve-months ended December 31,
12 2009. As discussed in the direct testimony of Company witness R. Bryce Dalley,
13 the Company is not proposing any adjustments to the amounts reflected in the
14 historic test period. The Washington-allocated share of this expense is \$1.4
15 million.

16 **Q. What level of incentive compensation does the Company expect to pay out on**
17 **a year on year basis?**

18 A. As the Company's pay philosophy is to provide total compensation at the market
19 average, and because target incentive compensation is set to market average, the
20 Company expects that it will pay out, on a year after year basis, the target levels
21 of incentive compensation.

1 **Q. Does the Company recommend the full target level of incentive compensation**
2 **plus base compensation be included in rates?**

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

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

15 A. Yes.