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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR A)
DETERMINATION OF 2012 DEMAND-) CASE NO. IPC-E-13-08
SIDE MANAGEMENT ("DSM") EXPENSES)
AS PRUDENTLY INCURRED.)
_____)

IDAHO POWER COMPANY

DIRECT TESTIMONY

OF

TIMOTHY E. TATUM

1 Q. Please state your name and business address.

2 A. My name is Timothy E. Tatum and my business
3 address is 1221 West Idaho Street, Boise, Idaho 83702.

4 Q. By whom are you employed and in what capacity?

5 A. I am employed by Idaho Power Company ("Idaho
6 Power" or "Company") as the Senior Manager of Cost of
7 Service in the Regulatory Affairs Department.

8 Q. Please describe your educational background.

9 A. I have earned a Bachelor of Business
10 Administration degree in Economics and a Master of Business
11 Administration degree from Boise State University. I have
12 also attended electric utility ratemaking courses,
13 including "Practical Skills for The Changing Electrical
14 Industry," a course offered through New Mexico State
15 University's Center for Public Utilities, "Introduction to
16 Rate Design and Cost of Service Concepts and Techniques"
17 presented by Electric Utilities Consultants, Inc., and
18 Edison Electric Institute's "Electric Rates Advanced
19 Course." In 2012, I attended the Utility Executive Course
20 at the University of Idaho.

21 Q. Please describe your work experience with
22 Idaho Power.

23 A. I began my employment with Idaho Power in 1996
24 as a Customer Service Representative in the Company's
25 Customer Service Center where I handled customer phone

1 calls and other customer-related transactions. In 1999, I
2 began working in the Customer Account Management Center
3 where I was responsible for customer account maintenance in
4 the areas of billing and metering.

5 In June of 2003, after seven years in customer
6 service, I began working as an Economic Analyst on the
7 Energy Efficiency Team. As an Economic Analyst, I was
8 responsible for ensuring that the demand-side management
9 ("DSM") expenses were accounted for properly, preparing and
10 reporting DSM program costs and activities to management
11 and various external stakeholders, conducting cost-benefit
12 analyses of DSM programs, and providing DSM analysis
13 support for the Company's 2004 Integrated Resource Plan
14 ("IRP").

15 In August of 2004, I accepted a position as a
16 Regulatory Analyst in Regulatory Affairs. As a Regulatory
17 Analyst, I provided support for the Company's various
18 regulatory activities, including tariff administration,
19 regulatory ratemaking and compliance filings, and the
20 development of various pricing strategies and policies.

21 In August of 2006, I was promoted to Senior
22 Regulatory Analyst. As a Senior Regulatory Analyst, my
23 responsibilities expanded to include the development of
24 complex financial studies to determine revenue recovery and
25

1 pricing strategies, including the preparation of the
2 Company's cost-of-service studies.

3 In September of 2008, I was promoted to Manager of
4 Cost of Service and in April of 2011 I was promoted to
5 Senior Manager of Cost of Service. As Senior Manager of
6 Cost of Service, I oversee the Company's cost-of-service
7 activities such as power supply modeling, jurisdictional
8 separation studies, class cost-of-service studies, and
9 marginal cost studies.

10 Q. What is the purpose of your testimony in this
11 proceeding?

12 A. In last year's DSM prudence determination case
13 (Case No. IPC-E-12-15), the Idaho Public Utilities
14 Commission ("Commission") deferred a determination of
15 prudence related to incremental labor costs for 2011 or
16 what was referred to in the Commission's Order on
17 Reconsideration as "Rider-funded, labor expense increases"
18 (Order No. 32690 at 1). The purpose of my testimony in
19 this proceeding is to provide the Commission with adequate
20 information to determine the prudence of both the deferred
21 2011 incremental labor costs and the current 2012
22 incremental labor costs charged to the Idaho Energy
23 Efficiency Rider ("Rider" or "DSM Rider").

24 Q. What are the components of the incremental
25 labor costs?

1 A. Incremental labor costs consist primarily of
2 merit salary increases and salary structure adjustments
3 received by employees.

4 Q. What were the amounts of incremental labor
5 costs charged to the Rider in 2011 and 2012?

6 A. Measuring from a base year of 2010, the amount
7 of incremental labor costs charged to the Rider in 2011 was
8 \$89,601. Measuring from a base year of 2010, the
9 cumulative amount of incremental labor costs for 2011 and
10 2012 charged to the Rider in 2012 was \$173,811. Ms.
11 Darlene Nemnich details the derivation of these incremental
12 labor costs in her testimony.

13 Q. Are these incremental labor amounts included
14 in the total DSM expenses that the Company is requesting be
15 reviewed for prudence in this case?

16 A. Yes. I have instructed Ms. Nemnich to include
17 the 2011 and 2012 incremental labor costs of \$89,601 and
18 \$173,811, respectively, in the overall DSM expenses that
19 the Company is requesting be determined prudent in this
20 case.

21 Q. Please provide an overview of your testimony.

22 A. The Commission has historically reviewed the
23 Company's labor costs for prudence determination by
24 assessing the Company's approach to aligning job positions
25 within a grade and step pay system. My testimony will

1 demonstrate that the salaries and wages of employees that
2 charge their time to the DSM Rider have been treated in a
3 manner that is consistent with that pay and grade system.
4 As a part of that demonstration, I will describe Idaho
5 Power's philosophy toward total employee compensation and
6 how the Company maintains the market parity of its
7 compensation packages for all employees, including those
8 administering the DSM programs. Lastly, I will present the
9 results of a recent benchmarking analysis related
10 specifically to the total compensation of employees
11 administering DSM activities.

12 **I. Regulatory Framework for the Review of Labor Costs**

13 Q. What has traditionally been the proceeding in
14 which the prudence of labor expenses has been determined?

15 A. The Company's total labor expenses have
16 traditionally been reviewed within the broader context of a
17 general rate case. Through the regulatory process of audit
18 and discovery, the parties examine the prudence of the
19 Company's test year labor expenses and the Commission
20 ultimately determines the amount that is appropriately
21 reflected in the Company's revenue requirement and
22 recoverable through rates.

23 Q. What has been the Commission's practice for
24 reviewing the prudence of DSM expenses?

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1 Company did not provide the necessary information to
2 demonstrate that the increase in Rider-funded labor-related
3 expenses in 2011 was reasonable and deferred its decision
4 regarding the 2011 Rider-funded labor increases until the
5 Company provided adequate information to support the
6 prudence of those costs (Order No. 32667 and
7 Reconsideration Order No. 32690).

8 Q. Does the Company wish to wait until a general
9 rate case to review and recover Rider-funded labor
10 increases from 2011 and 2012?

11 A. No. In Order No. 32667, the Commission made
12 the following statement with regard to the provision of
13 wage and salary information: "The Company may, but need
14 not, wait until a general rate case to provide such
15 supporting information." With this view in mind, I believe
16 that it is appropriate to address incremental labor costs
17 as part of this year's DSM review so that certain recovery
18 of these expenses may more closely match the period in
19 which the expense was incurred.

20 Q. Please describe how labor expenses are
21 reviewed in the context of a general rate case.

22 A. The labor expenses included for review in a
23 general rate case are reflective of then-current test year
24 levels, and are not an assessment of merit step increases
25 or salary structure adjustments that occurred in prior

1 years. It is my belief that the Commission, in its past
2 reviews of labor expenses, has afforded the Company's
3 management discretion with regard to its decisions related
4 to interim merit and salary structure adjustments, and has
5 instead focused its review on the overall reasonableness of
6 the proposed test year labor costs.

7 Q. Does the Company have a preferred method for
8 reviewing the prudence of the incremental Rider-funded
9 labor expenses?

10 A. Yes. The Company believes that the
11 incremental Rider-funded labor expenses should be reviewed
12 as part of the annual DSM prudence review, with a similar
13 approach to how labor expenses are reviewed in a general
14 rate case. The information to support such a review is
15 updated annually by the Company and is readily available
16 for audit by the Staff and other parties at the time of the
17 Company's annual filing for a prudence determination of its
18 DSM expenses. Further, the prudence determination of the
19 incremental Rider-funded labor expenses should be completed
20 in the context of the broader prudence determination of
21 annual DSM program expenses. A cost-effective program
22 suggests that customers are benefiting from a lower cost
23 resource than the next best alternative. Therefore, a
24 cost-effective program should be a factor in determining
25

1 the prudence of the labor component of the total program
2 costs.

3 **II. Idaho Power's Total Compensation Package**

4 Q. Please provide a general discussion of Idaho
5 Power's employee compensation philosophy.

6 A. Idaho Power's compensation philosophy is to
7 provide a balanced, competitive, and sustainable total
8 compensation package or "Total Rewards" package, ensuring
9 it attracts and retains high quality employees and
10 motivates them to achieve performance goals that benefit
11 customers and shareholders. Maintaining a competitive
12 compensation package allows the Company to recruit and
13 retain its highly skilled workforce. The competitiveness
14 of Idaho Power's compensation package also supports the
15 Company's intent to maintain a flexible workforce that can
16 easily adjust work duties and assignments to meet changing
17 demands and operational needs, which in turn keep the
18 Company's costs of service lower. In support of this
19 philosophy, the Company monitors its salary structure
20 annually, and adjusts it accordingly in order to maintain a
21 market competitive compensation package.

22 Q. What are the components of the Company's total
23 compensation package?

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1 A. The total compensation package includes base
2 wages and "at-risk" incentive pay as well as competitive
3 health, welfare, retirement, and other benefits.

4 Q. Please describe the standard the Company uses
5 to remain competitive in setting base wages.

6 A. The Company has a grade and step pay system.
7 The highest step in any grade is step 13. Each position is
8 assigned a grade as reflective of the market and the
9 Company standard for remaining competitive is to set the
10 step 13 pay of each grade to be approximately equal to the
11 median pay for a comparable position in the peer-compared
12 market.

13 Q. Please explain how merit salary increases
14 relate to the grade and step system.

15 A. Merit salary increases are the means by which
16 an employee progresses within the grade and step system.
17 For example, an employee that begins employment at step 1
18 of a salary grade may receive periodic merit salary
19 increases until that employee reaches step 13 of their
20 respective grade. Step 13 of each grade represents the
21 median wage level based on market survey information.
22 Therefore, employees that are below step 13 of their grade
23 are compensated at a wage below the median market level
24 until they reach step 13. Employees are eligible for a
25 merit salary increase review every six months and may

1 receive up to a maximum of a two-step increase each review
2 period.

3 Q. How does the Company determine the base wage
4 level for each position?

5 A. Base compensation and incentive targets are
6 established when a job is created using peer utility
7 company wage data obtained from salary surveys and union
8 contracts, as well as an internal equity analysis. These
9 reviews typically include three to four years of wage data
10 to ensure that compensation trends are taken into
11 consideration, and to prevent frequent changes to position
12 wages based on one or two years of survey data. The
13 Company reviews this information annually to ensure market-
14 competitive wages are maintained.

15 **III. Total Compensation Benchmarking**

16 Q. How often is the Company's total compensation
17 package reviewed?

18 A. The Company's total compensation package is
19 reviewed annually. In 2011, the Company modified its
20 annual benefits review to include a comprehensive
21 benchmarking analysis that evaluates total Idaho Power
22 employee compensation as compared to the total employee
23 compensation provided by other peer utility companies.

24 Q. Please describe the Company's annual review of
25 its total compensation package.

1 A. The Company reviews its total compensation
2 package on an annual basis by benchmarking the wages and
3 benefits of five primary jobs which represent a broader
4 range of jobs active in a variety of functions: customer
5 service, skilled crafts, professional, and technical,
6 including positions that are exempt and not exempt from
7 overtime. The Company only includes positions with ample
8 wage survey or union contract data as adequate market data
9 is an important aspect of the benchmarking analysis.

10 Q. What five jobs are reviewed in the annual
11 total compensation benchmarking analysis?

12 A. The jobs reviewed are: Customer Service
13 Representative II, Lineman, Financial Analyst II, IT System
14 Administrator II, and Senior Engineer. These five
15 positions represented approximately 11 percent of the total
16 employees at Idaho Power in 2011 and 2012. These five
17 positions, although evaluated at a specific level, are
18 representative of a larger job category or family. For
19 example, there are two levels of Financial Analysts,
20 Financial Analyst I and Financial Analyst II. The combined
21 number of employees in each of the selected jobs
22 represented approximately 22 percent of the total workforce
23 in 2011 and 2012.

24 Q. How often is the total compensation of other
25 jobs within Idaho Power reviewed?

1 A. While no fixed review schedule exists for all
2 jobs within the Company, the following guidelines are
3 utilized: The Company reviews wages and incentive targets
4 for linemen and line crew foreman annually as part of its
5 salary structure adjustment analysis. Base wage reviews
6 for specific positions occur from time-to-time when a
7 position has had a significant change in job
8 responsibilities, or market conditions result in the
9 Company experiencing difficulty recruiting and/or retaining
10 skilled employees necessary to provide safe and reliable
11 electric service to customers.

12 Q. How does the Company benchmark its total
13 compensation compared to its peer group?

14 A. Idaho Power's total compensation benchmarking
15 process compares a sampling of Idaho Power jobs' wages,
16 salaries, and benefits to peer utility information to
17 ensure that Idaho Power maintains market competitive
18 compensation levels and remains an employer of choice. The
19 Company has a contract with Towers Watson, a nationally
20 recognized human resources consulting firm, to supply data
21 used in the annual benchmarking analysis.

22 The Company utilizes the Towers Watson wage
23 information to benchmark professional exempt positions
24 within the five job families reviewed while non-exempt
25 trade positions are benchmarked using intermountain utility

1 peer contract data. Towers Watson also reviews the cost
2 (as a percentage of pay) to Idaho Power of providing
3 benefits compared to the corresponding costs incurred by a
4 peer group of companies. Benefits reviewed and benchmarked
5 include health, retirement, and other services, including
6 time off and disability programs.

7 The results of the total compensation benchmarking
8 analysis are presented in summary format annually to Idaho
9 Power's Board of Director's Compensation Committee and the
10 most recent presentation of the total compensation analysis
11 is attached as Exhibit No. 1 to my testimony.

12 Q. What were the results of the most recent total
13 compensation benchmarking analysis?

14 A. As can be seen on pages 13-18 of Exhibit No.
15 1, the Company's most recent total compensation
16 benchmarking analysis demonstrates that Idaho Power's total
17 compensation levels continue to be comparable to those of
18 its peer utilities. While the compensations levels for some
19 of the sampled positions are slightly below the comparable
20 market levels and some are slightly above, the Company
21 believes that the study demonstrates that the sampled total
22 compensation levels are within an acceptable range of the
23 market comparables.

24 Q. Does the Company use the annual total
25 compensation benchmarking information to adjust wages?

1 A. The Company uses the annual total compensation
2 benchmarking information as the basis for decision-making
3 regarding salary structure adjustments and appropriate
4 benefit levels, with the goal of aligning the overall
5 employee compensation with the market median. The
6 information from the annual review is not used to adjust
7 the grade level of individual job classifications. For
8 individual job classifications, the Company monitors the
9 market compensation for an Idaho Power equivalent job to
10 ensure there are not anomalies in the market data causing
11 the Idaho Power job to appear out of line with the peer
12 group according to grade. The Company seeks to maintain
13 stability with its salary structure, and therefore, tries
14 to avoid adjusting the grade of Idaho Power jobs every time
15 the benchmarking data comes in slightly higher/lower than
16 Idaho Power's base wage. If the benchmarking data
17 indicates a consistent trend either above or below Idaho
18 Power's base wage, a formal review of the job family is
19 undertaken to determine if an adjustment to the base wage
20 is warranted.

21 Q. Does the Company believe that the benchmarking
22 review process for total compensation is an effective
23 method for establishing its compensation levels?

24 A. Yes. The Company believes that the annual
25 review process for total compensation has been successful

1 in maintaining a competitive, cost-effective total
2 compensation package that is in line with its industry
3 peers while maintaining the integrity of Idaho Power's
4 compensation philosophy.

5 **IV. DSM Total Compensation Benchmarking**

6 Q. In preparation for this year's DSM prudence
7 review, did the Company prepare a benchmarking study
8 specific to the DSM group?

9 A. Yes. While the Company believes that its
10 broader annual review of total compensation provides an
11 effective basis for decision-making regarding salary
12 structure adjustments and appropriate benefit levels for
13 the entire Company, in 2013, the Company prepared a total
14 compensation benchmarking study specific to the DSM group
15 ("DSM Total Compensation Analysis"). This analysis
16 includes a detailed benchmarking study for 10 of the 15
17 Rider-funded positions, or approximately 23 of the 31
18 budgeted full-time equivalents ("FTE's) that are all or in
19 part Rider-funded. Of the 15 different positions that are
20 funded by the Rider, the 10 positions reviewed in the DSM
21 Total Compensation Analysis are funded entirely by the
22 Rider. The DSM Total Compensation Analysis is included as
23 Exhibit No. 2 to my testimony.

24 Q. Please provide an overview of the DSM Total
25 Compensation Analysis.

1 A. The DSM Total Compensation Analysis utilized
2 the same methodology applied in the Company's broader
3 annual review of total compensation. However, in the DSM
4 Total Compensation Analysis, the total compensation for
5 Rider-funded positions was compared to similar positions of
6 peer companies within the utility industry. As is the case
7 with the broader annual review, the peer group in the DSM-
8 specific analysis is defined as utility companies with
9 annual revenues of less than one billion dollars and
10 utility companies with revenues between one and three
11 billion dollars. The Company believes using both sampling
12 segmentations is appropriate when evaluating its total
13 compensation comparisons as the level of Company revenues
14 has only recently placed it within the one to three billion
15 dollar peer group. The total compensation analysis
16 utilized salary data from the Towers Watson Energy Services
17 Industry Middle Management and Professional survey combined
18 with benefits information from the Towers Watson's Benefits
19 Data Source to create the total compensation market values
20 for each position. It should be noted, Towers Watson did
21 not track salary data for DSM-related positions prior to
22 2011; therefore, market data for many of the DSM-related
23 positions prior to 2011 is not available. However, the
24 Company anticipates that the strength of the energy

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1 efficiency discipline data will increase in the coming
2 years.

3 Q. Please provide a summary of the results of the
4 DSM Total Compensation Analysis.

5 A. As can be seen on pages 14-24 of Exhibit No.
6 2, the benchmarking results continue to support the
7 Company's total compensation for each of the reviewed DSM
8 positions and demonstrates that the Company's broader
9 annual total compensation review is an effective method for
10 maintaining total compensation levels for the entire
11 Company. Pages 3-4 of Exhibit No. 2 provide a summary of
12 the conclusions reached by the Company regarding the DSM
13 Total Compensation Analysis. As should be expected, the
14 compensation levels for some of the DSM positions are
15 slightly below the comparable market levels and some are
16 slightly above. However, the Company believes that the
17 study demonstrates that the sampled total compensation
18 levels are within an acceptable range of the market
19 comparables. Notwithstanding this view, the Company
20 intends to closely monitor the compensation level for the
21 Engineering II position and further analyze the associated
22 market data.

23 Q. How did the Engineer II position compare to
24 the benchmarking data?

25

1 A. As can be seen on page 18 of Exhibit No. 2,
2 the total compensation for the Engineer II position
3 benchmarked within an acceptable level of market in 2011,
4 and in 2012, the position benchmarked higher than the 7.6
5 percent (the equivalent of two salary grades in the
6 Company's salary structure) for acceptable market
7 compensation. This position has subsequently been placed
8 on the Company's "watch list" as benchmarking higher than
9 the median compared to the peer group. As a result, the
10 Company plans to further analyze the market survey data and
11 will perform a more formal review of this job family should
12 the Idaho Power total compensation for this position
13 continue to benchmark out of line against the market.

14 Q. Do you believe that the information contained
15 within the DSM Total Compensation Analysis supports a
16 prudence determination with regard to Rider-funded salary
17 increases in 2011 and 2012?

18 A. Yes, I do.

19 Q. Does this conclude your testimony?

20 A. Yes, it does.

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CASE NO. IPC-E-13-08

IDAHO POWER COMPANY

**TATUM, DI
TESTIMONY**

EXHIBIT NO. 1

**THIS EXHIBIT IS
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AND WILL BE PROVIDED
TO THOSE PARTIES THAT
SIGN THE PROTECTIVE
AGREEMENT**

**BEFORE THE
IDAHO PUBLIC UTILITIES COMMISSION**

CASE NO. IPC-E-13-08

IDAHO POWER COMPANY

**TATUM, DI
TESTIMONY**

EXHIBIT NO. 2

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