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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE)	
APPLICATION OF ROCKY)	CASE NO. PAC-E-07-05
MOUNTAIN POWER FOR APPROVAL)	
OF CHANGES TO ITS ELECTRIC)	Rebuttal Testimony
SERVICE SCHEDULES)	of Erich D. Wilson

ROCKY MOUNTAIN POWER

CASE NO. PAC-E-07-05

October 2007

1 **Q. Please state your name, business address and present position with the**
2 **Company (also referred to as Rocky Mountain Power).**

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 **Q. Are you the same Erich D. Wilson that previously submitted testimony in**
7 **this proceeding?**

8 A. Yes.

9 **Purpose of Rebuttal Testimony**

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

11 A. The purpose of my testimony is to respond to adjustments proposed by
12 Commission Staff witness Mr. Joe Leckie, individual customer Mr. Timothy
13 Shurtz, and Monsanto witness Mr. Michael Gorman that would reduce the amount
14 of incentive compensation expense, that would reduce or eliminate the severance
15 payments for which the Company has sought recovery, and that would reduce the
16 Company's requested pension expense (associated with the Company's shift in
17 formula design to a cash balance approach) included in the Company's revenue
18 requirement in this proceeding.

19 **Compensation Adjustment**

20 **Q. Please briefly describe the Company's compensation and benefits**
21 **philosophy.**

22 A. The philosophy of PacifiCorp, and its parent MidAmerican Energy Holdings
23 Company, is to provide a total compensation and benefits package that enables an

1 employee to receive compensation and benefits comparable to the average
2 provided by our competitors for labor when an employee performs at an
3 acceptable level. Employees will earn less than the average remuneration when
4 performance is less than acceptable and, conversely, will earn higher than the
5 average remuneration when performance is better than desired levels. The
6 Company's objective is to generally provide the same components in our total
7 remuneration package as are included in the packages provided by our
8 competitors for labor. This allows us to attract and retain the quality of employee
9 necessary to provide the high level of service demanded by and owed to our
10 customers, without incurring excessive or unreasonable labor costs.

11 When reviewing any expenses associated with any single portion of this
12 compensation package, it is essential to recognize that each portion is part of an
13 integrated total package. The total compensation package must be viewed as a
14 whole, otherwise employees would be compensated at a level below the market
15 with no opportunity to earn at or above the market, regardless of performance.

16 **Q. Please describe the adjustment to the Company's employee compensation**
17 **plan proposed by the Commission Staff and the recommendation of**
18 **individual customer Mr. Timothy Shurtz.**

19 **A.** Commission Staff takes the position that the Company should not be permitted to
20 recover incentive compensation that is provided to its employees based on goals
21 that are not focused on achieving customer benefits. Mr. Shurtz recommends that
22 the Commission not permit recovery of any incentive compensation. Commission
23 Staff quantifies the disallowance by stating 10 percent of the incentive

1 compensation plan is based on goals that do not benefit customers. It is Staff's
2 position that these goals benefit the shareholder and should not be recovered.

3 **Q. Do you agree with their rationale and proposed adjustment to the incentive**
4 **elements of the compensation package?**

5 A. No. Neither Commission Staff nor Mr. Shurtz provide any empirical data or
6 verifiable evidence suggesting that the structure of the program is not market
7 competitive or unreasonable. Furthermore, Mr. Shurtz offers no analysis of the
8 Company's compensation package and instead simply makes a general assertion
9 that no incentive compensation should be collected through rates.

10 **Q. Why is the Company's compensation package reasonable?**

11 A. Historically utility incentive compensation programs have been challenged by
12 intervening parties on grounds that the programs are not designed to achieve goals
13 that benefit customers, but rather goals that benefit shareholders. However,
14 following the acquisition of PacifiCorp by MidAmerican Energy Holdings
15 Company, the Company considered adjusting the structure of its incentive
16 program. This restructuring resulted in a program that is tied directly to achieving
17 goals that result in customer benefits, as well as one that enables the Company to
18 attract and retain the talent needed to continue providing safe and reliable service
19 to customers.

20 In this filing the Company is only seeking recovery for the level of
21 incentive that is deemed by the market as competitive and at the market average
22 for where the Company competes for its labor. Customers benefit from having
23 exceptional individuals leading the organization, and it is appropriate for the

1 Company to seek recovery of the incentive compensation. Performance that
2 warrants incentive compensation above the market target levels will be absorbed
3 by the Company and not sought in rate filings.

4 **Q. Doesn't the Commission Staff recognize the change in the compensation**
5 **program by only recommending a disallowance of 10 percent?**

6 A. While the Company would agree the Commission Staff's recommendation to
7 disallow only 10 percent of the plan is likely a recognition of the change in plan
8 objectives, the Company strongly believes that the recommendation is not
9 supported by the evidence in this case.

10 **Q. What about the financial goals identified by Commission Staff?**

11 A. Although there is a financial goal outlined in Company witness Mr. A. Richard
12 Walje's individual goals, as shown in my direct testimony, this goal is both a
13 measure of Mr. Walje's overall performance and award, but it is also structured in
14 such a way that the focus of his efforts is on improving the effectiveness,
15 efficiency and operations of the business, all of which have a direct connection
16 and benefit to the customers we serve.

17 **Q. What message is the Company receiving if the Commission does not permit**
18 **full recovery of the Company's compensation package.**

19 A. In addition to denying the recovery of a prudently incurred cost of providing safe
20 and reliable electric service, acceptance of Commission Staff's adjustment and
21 Mr. Shurtz's recommendation would be an indication that our employees should
22 be compensated at a level below the market with no opportunity to earn at or
23 above the market, regardless of performance.

1 **Severance Adjustment**

2 **Q. Please describe Commission Staff's proposed adjustment to the Company's**
3 **severance expense.**

4 A. Commission Staff adjusts the severance paid to non-executives by \$7.9 million.
5 Commission Staff witness Mr. Leckie states that through his calculations, the
6 severance paid to non-executives was less than the realized savings and that all
7 non-executive severance amortization should be allowed in rates. He further
8 analyzed the executive severance and concluded that the cost of severance paid
9 was more than the realized savings. Mr. Leckie also removes all severance costs
10 incurred prior to 2006.

11 **Q. Do you agree with Mr. Leckie's proposal to reduce the severance plan**
12 **expense allowed to be recovered in rates?**

13 A. As stated in my direct testimony, the Company believes that its severance
14 program is a necessary component of its overall compensation package and was
15 utilized to provide benefits to customers. For ratemaking purposes in this case,
16 the Company is willing to accept Mr. Leckie's position based on his cost benefit
17 calculations. Company witness Mr. Steven McDougal will provide the details
18 regarding the impact of this adjustment on the revenue requirement in this case.

19 **Q. Did Mr. Shurtz propose an adjustment to the Company's severance plan**
20 **expense?**

21 A. Yes. Initially, Mr. Shurtz provided a general recommendation that the
22 Commission should not permit the Company to recover its severance costs
23 because there is no benefit to customers. Following the filing of his testimony,

1 Mr. Shurtz filed a response to a data request from the Company indicating that he
2 supports the Commission Staff's proposed adjustment for severance expense,
3 which the Company has also accepted. Accordingly, the Company does not
4 believe there is a need to respond to Mr. Shurtz's direct testimony on this issue.

5 **Q. Please describe Monsanto's proposed adjustment to the severance plan**
6 **expense.**

7 A. Monsanto's witness Mr. Gorman contends that the severance costs incurred by the
8 Company prior to filing its application for deferred accounting should be
9 disallowed because it is retroactive ratemaking. He also claims that the
10 Company's allocation of severance to Idaho is overstated because of a mismatch
11 in jurisdictional allocation factors.

12 **Q. Do you agree with Mr. Gorman's rationale and proposed adjustment to the**
13 **severance plan expense?**

14 A. No. Mr. Gorman does not challenge the prudence of the severance plan nor the
15 amount. The Company provided a severance plan to its employees as a means of
16 maintaining its competitive market position, which as I have stated previously,
17 enables the Company to attract and retain the labor needed to provide operational
18 efficiencies and customer service. The severance plan was utilized as a result of a
19 change in control—the MidAmerican Energy Holdings Company acquisition of
20 PacifiCorp. Actions taken as a result of the transaction were made by the
21 Company's new owners with the purpose of efficiently structuring the
22 organization to better serve our customers. As such, as discussed in further detail
23 in my direct testimony, the severance plan is a reasonable and integral component

1 of the Company's overall compensation package that it offers its employees, and
2 the severance expense sought by the Company in this filing is fair and reasonable.
3 Company witness Mr. Steven McDougal also addresses the other aspects of Mr.
4 Gorman's proposal.

5 **Pension Plan Expense Adjustment**

6 **Q. Please describe Mr. Gorman's proposed adjustments to the pension plan**
7 **expense.**

8 A. Mr. Gorman does not challenge the amount or prudence of the Company's
9 pension plan expense. However, he does request the Commission reject the
10 adjustment based upon his contention that the Commission does not require cash
11 contribution amount, but rather an amount that is fair and reasonable, and that the
12 Company has not demonstrated that their proposal to increase pension costs to
13 reflect cash contribution is fair and reasonable.

14 **Q. Do you agree with Mr. Gorman's rationale and proposed adjustment to the**
15 **pension plan expense?**

16 A. No. Mr. Gorman's proposal is precisely what this Commission should avoid.
17 Fair and reasonable does not equate to "the lower of" two options. As I stated in
18 my direct testimony, the Company follows accrual accounting guidelines to
19 account for its pension plan; however, in a given year the cash contribution may
20 be significantly different than the accrued expense. If the Company is only
21 allowed to recover "the lower of the cash contribution or an annual pension
22 expense" the Company will not recover the full cost of providing this necessary
23 employee benefit.

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

2 **A. Yes.**