

Docket No. 09-_____
Exhibit No. PPL/600
Witness: Erich D. Wilson

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

PACIFICORP

Direct Testimony of Erich D. Wilson

Employee Compensation

November 2009

1 **Q. Please state your name, business address and present position with**
2 **PacifiCorp (“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 education and business experience.**

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
17 various 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 **Q. What is the purpose of your testimony?**

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

8 **Background**

9 **Q. As background, please briefly describe the Company's compensation**
10 **philosophy.**

11 A. The Company's primary objective in establishing employee compensation is to
12 provide pay at the market average. Compensation at the market average
13 (competitive level) is critical to attracting and retaining qualified employees to
14 support the business and its customers. Thus, the Company endeavors to provide
15 the same general pay levels and components in its total remuneration package as
16 are included in the packages provided by its competitors for labor. The Company
17 believes that, in order to encourage superior performance, a certain percentage of
18 each employee's market compensation must be "at risk." Accordingly, under the
19 Company's Annual Incentive Plan ("AIP"), each employee has the opportunity to
20 receive total compensation at the market average, so long as the employee
21 performs at an acceptable level. However, employees will earn less than the
22 average remuneration when performance is less than acceptable and, conversely,
23 will earn higher than the average remuneration when performance is exceptional.

1 **Total Compensation**

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

4 A. At least annually, the Company collects market data for comparable jobs and
5 calculates the average data point for total cash compensation for each position.
6 To do so, the Company uses a variety of compensation studies from various
7 experts and organizations, including Hewitt Associates, Towers Perrin, and
8 Mercer. In addition, in 2008 the Company obtained access to the on-line tool
9 MarketPay.com. MarketPay.com provides electronic access to all of the
10 compensation studies the Company has traditionally used and some additional
11 surveys, allowing the Company to more efficiently perform information searches
12 and job and pay comparisons.

13 After the Company determines the appropriate level of total cash
14 compensation for a position, the portion of that compensation that will constitute
15 the “at-risk” portion is determined, which is the “target” incentive pay. The
16 Company sets the “at-risk” portion by reviewing market compensation using the
17 various compensation studies described above. The “at-risk” portion is typically
18 in the 10-25 percent range; however, incentive pay for a few employees is set as
19 high as 75 percent. Generally speaking, the higher the position is within the
20 Company, the higher the percentage of target incentive pay. The remaining
21 percentage of total compensation is referred to as “base compensation.”

1 **Annual Incentive Plan**

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

3 A. The objective of the AIP is to provide employees with incentive to perform at an
4 above-average level. This is achieved by putting a percentage of the competitive
5 total compensation “at risk.” If an employee performs at an acceptable level for
6 the position, the employee will receive the target incentive amount which will
7 allow the employee to earn compensation comparable to similar positions in the
8 market. If an employee fails to perform at an acceptable level, the employee will
9 receive less than the target incentive or no incentive at all. When this situation
10 occurs, the employee will be paid less than the comparable total cash
11 compensation in the marketplace for that year. Conversely, for exceptional
12 performance, an employee may receive above his or her target incentive level.

13 The ability to earn a higher-than-target incentive payment provides the
14 employee with an incentive to exceed average performance. This opportunity is
15 an essential counterbalance to the risk the employee faces that his or her
16 performance in a particular year will be less than acceptable, with the
17 consequence that total compensation will be less than market in that year. The
18 symmetry of the incentive element provides the Company with the financial tool
19 to encourage exceptional performance and discourage less than acceptable
20 performance. As would be expected from a well-designed, symmetrical plan, the
21 average incentive payment is approximately at the target incentive level.

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

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

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

11 A. The Company's AIP provides performance awards based on the following: 1) the
12 employee's performance against individual goals; 2) the employee's performance
13 against group goals including safety goals; and 3) success in addressing new
14 issues and opportunities that may arise during the course of the year. All non-
15 represented employees are eligible to participate in the AIP. A complete
16 description of the 2009 AIP is provided as Exhibit PPL/601.

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

18 A. Individual employee goals start with the goals set for the Company as a whole.
19 Each year, the Company president, in conjunction with MidAmerican Energy
20 Holdings Company, sets the overall goals for the Company. These goals focus on
21 delivering safe and reliable electricity to customers and providing excellent
22 customer service. Goals include safety goals such as reducing lost time,
23 recordable, preventable, and restricted duty incidents. Customer service-related

1 goals include implementing local and regional customer service improvements,
2 improving visibility and relations with industrial customers and consumer
3 associations, and improving overall customer satisfaction. Some goals relate to
4 operating within established budgets, including maintenance and operating costs,
5 controlling the cost of capital expenditures, and achieving operational
6 efficiencies/financial targets, which help the Company control its costs. Other
7 key goals relate to operational performance, major project delivery, organizational
8 planning and development, and quality of service and regulatory commitments.
9 The achievement of each and every one of these goals will serve to benefit
10 customers.

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

12 A. These Company-wide goals are used not only to evaluate the president's
13 performance, but they also serve as the foundation for the goals set for each
14 individual employee. Thus, when an individual employee sets his or her own
15 individual goals for the year, they are set by reference to how that employee's
16 position can advance the overall goals of the Company. The employee's
17 performance on individual goals accounts for approximately 70 percent of his or
18 her overall evaluation.

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

20 A. In addition to performance against individual goals, all employees are evaluated
21 against six common or "group" goals. These group goals describe the
22 characteristics the Company believes are important to the success of all
23 employees, *i.e.*, customer focus, job knowledge, planning and decision making,

1 productivity, builds relationships and leadership. Detailed descriptions of these
2 characteristics are attached as Exhibit PPL/602. The employee's performance
3 with respect to these group goals accounts for approximately 30 percent of the
4 employee's overall evaluation.

5 **Q. Please explain the third category.**

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

12 **Q. Are any of the employees judged on the financial performance of the**
13 **Company?**

14 A. No. While all employees are expected to operate within applicable budgets,
15 corporate financial performance and returns are not a factor in determining the
16 amount of incentive compensation awarded under the plan. The Company does
17 maintain a separate plan for executives that awards bonuses based on overall
18 corporate performance; however, the Company does not ask customers to absorb
19 the costs associated with that plan.

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

22 A. This application includes a request for total-Company incentive compensation
23 based on a calendar year 2011 test period of approximately \$33.3 million. This

1 amount is slightly lower than the Company's 2005 rate case filing, Application
2 05-11-022, which included incentive compensation expense of approximately
3 \$33.9 million. This is the total budgeted incentive compensation payout at the
4 target incentive level for each employee participating in the incentive plan. The
5 California portion of this expense is approximately \$630,000.

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

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

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

14 A. Yes, for several reasons. First, customers should fully support the cost of
15 incentive compensation because, as I previously mentioned, it is an essential
16 component of an overall market-based competitive compensation program.
17 Reducing customer support for incentive pay would result in under-market
18 salaries, making it impossible for the Company to recruit and maintain a qualified
19 labor force, which would in turn impair the ability of the Company to provide safe
20 and reliable service. Moreover, the goals of the plan are designed to encourage
21 superior performance on the part of employees to pursue the goals that directly
22 benefit customers—safety, reliability, and customer service. This is precisely the

1 type of prudently designed incentive plan that provides direct benefits to
2 customers and which customers should, therefore, support.

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

4 A. Yes.