

**UE 335 / PGE / 400
Mersereau – Neitzke**

**BEFORE THE PUBLIC UTILITY COMMISSION
OF THE STATE OF OREGON**

UE 335
Compensation

PORTLAND GENERAL ELECTRIC COMPANY

Direct Testimony and Exhibits of

Anne Mersereau
Tamara Neitzke

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II. Introduction

1 **Q. Please state your names and positions with Portland General Electric Company (PGE).**

2 A. My name is Anne Mersereau. My position is Vice President, Human Resources, Diversity
3 & Inclusion. My responsibilities include establishing total compensation policies and
4 employee policies, continuing to strengthen the work culture at PGE, managing employee
5 recruitment, development and retention, managing employee relations, and overseeing
6 safety, corporate resiliency, worker's compensation, and health programs.

7 My name is Tamara Neitzke. I am the Director of Compensation and Benefits in the
8 Human Resources Department.

9 Our qualifications are included at the end of this testimony.

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

11 A. Our testimony presents and explains PGE's key talent management challenges. In
12 particular, we describe how PGE's compensation philosophy is designed to address our
13 compensation challenges, and we present total compensation costs for the 2019 test year.
14 Total compensation costs include base wages and salaries, incentive pay, and employee
15 benefits.

16 **Q. What are PGE's expected total compensation costs and the cost drivers in 2019?**

17 A. PGE forecasts approximately \$395.1 million in total compensation costs for 2019. Table 1
18 below summarizes the cost and compensation components of the 2017 actuals, 2018 budget,
19 and 2019 test year. Our 2018 budget was based on the results of our 2018 general rate case
20 as filed in Docket No. UE 319 (UE 319).

Table 1
Estimated Total Compensation Costs (\$Millions)

<u>Component</u>	<u>2017</u> <u>Actuals</u>	<u>2018</u> <u>Budget</u>	<u>2019</u> <u>Test Year</u>	<u>2017-2019</u> <u>Delta</u>
Wages & Salaries	\$260.7	\$275.1	\$281.5	\$20.9
Incentives	\$28.2	\$30.6	\$13.0	(\$15.2)
Benefits	\$82.3	\$96.5	\$100.5	\$18.2
Total Compensation*	\$371.2	\$402.1	\$395.1	\$23.9

* Numbers may not sum due to rounding.

1 The net difference between 2017 actuals and forecast 2019 test year costs is an increase
2 of \$23.9 million. Looking at the component parts, \$20.9 million of the increase is from
3 forecasted wages and salaries due to market-driven salary adjustments and increasing labor
4 required to meet PGE’s business, regulatory, and customer related goals. Most of this
5 increase occurs between 2017 and 2018 and was discussed in UE 319. We further explain
6 the changes in more detail in Section III below. Additionally, Section III discusses PGE’s
7 wages and salaries in aggregate (i.e., both expense and capital related full-time equivalent
8 employee costs in the reported wages and salaries).

9 A primary driver of benefits costs from 2017 to 2019 is the continued increases in health
10 and wellness costs (\$12.8 million), most of which occur between 2017 and 2018. The total
11 compensation increases are partially offset by a decrease in PGE’s incentive request, which
12 represents a reduction of approximately \$15.2 million from 2017 actuals.

13 **Q. How is the remainder of your testimony organized?**

14 A. After this introduction, we have five sections:

- 15 • Section II: PGE’s Total Compensation Philosophy and its Challenges;
- 16 • Section III: Wages and Salaries;
- 17 • Section IV: Incentives;

- 1 • Section V: Benefits; and
- 2 • Section VI: Summary and Qualifications.

III. PGE's Total Compensation Philosophy and its Challenges

1 **Q. Please briefly describe PGE's philosophy on total compensation.**

2 A. PGE's philosophy is to provide total compensation sufficient to attract and retain employees
3 with strong qualifications and skills necessary to provide safe, reliable, affordable, cleaner,
4 and more secure energy to our customers. To keep costs reasonable, PGE actively controls
5 costs by targeting market median conditions for our compensation program.

6 **Q. What are the components of PGE's total compensation?**

7 A. PGE's compensation components include:

8 • Wages and Salaries: PGE designs its non-union and union wages to target the
9 market median based on company size, geographic market, and job function.

10 • Incentive Pay: PGE designs its incentive pay to attract, retain, and reward
11 employees for achieving performance goals that help PGE achieve its objectives.

12 • Benefits: PGE provides market-aligned health and welfare benefits. PGE also
13 provides a pension and a 401(k) plan for retirement.¹ PGE strives to maintain a
14 benefits package that meets our employees' needs and balances the features and
15 costs both among employee groups and against what other employers in our
16 market provide to their employees.

17 **Q. What are the major challenges for PGE's talent acquisition and compensation?**

18 A. PGE is facing four strategic talent acquisition² challenges that affect our workforce and
19 compensation philosophy:

¹ PGE's pension plan is closed to all new employees. Effective February 1, 2009, new non-bargaining employees were ineligible for the pension plan. Effective January 1, 2012, new bargaining unit employees at Coyote Springs and Port Westward work sites were ineligible for the pension plan. PGE had previously closed the plan to all other new bargaining unit employees effective January 1, 1999.

² Talent acquisition is also called "recruiting" in this testimony.

- 1 1. The need to recruit well-qualified, skilled employees in a competitive
2 marketplace;
- 3 2. Developing the pipeline of talent to ensure continuity and improvement in the
4 services we provide despite a large number of employee retirements;
- 5 3. Ensuring that our workforce reflects the diversity of our service area; and
- 6 4. Managing and controlling our health care costs while providing benefits that
7 attract and retain the well-qualified, skilled employees PGE needs.

A. Talent Acquisition

8 **Q. Please describe the first challenge – hiring well-qualified, skilled employees in a**
9 **competitive marketplace.**

10 A. Our customers' needs and expectations are evolving in a manner that requires PGE to
11 improve the technical skillsets and versatility of our employees. While we generally
12 observe a need for new and different skillsets throughout PGE, examples of how these
13 skillsets are evolving include:

- 14 • Utilities are implementing new technologies and experiencing fast-paced changes
15 in methods for reliably operating the electric grid with higher levels of variable
16 energy resources. These technologies and changes require utility personnel, such
17 as power plant technicians and substation operators, to possess broader, more
18 versatile skills.³
- 19 • Senior managers have traditionally possessed deep subject matter expertise built
20 through decades of experience. PGE is increasingly placing a greater emphasis
21 on candidates with strong managerial abilities along with technical abilities,

³ Including advanced technical, mathematical, and mechanical concepts.

1 leading PGE to compete for such managerial talent with both utility and
2 non-utility industries.

- 3 • Increasingly complex and integrated systems throughout PGE and increasing need
4 in the areas of cyber and physical security require highly skilled and specialized
5 Information Technology (IT) professionals, who are in demand both within and
6 outside of the utility industry.
- 7 • Diversity in our customer base has led us to staff customer contact centers with a
8 broader set of language skills (e.g., Spanish and Russian fluency). Employee
9 candidates with the needed language skills are difficult to attract and retain
10 without offering premium compensation relative to PGE’s market benchmarks.

11 Our recruiting challenges for these necessary skills continue to be most acute for several
12 specialties.⁴ We have described some similar recruiting challenges in our past rate case
13 filings, and the competition has only increased. As the economy reaches full employment,
14 regionally and nationally, potential employees can afford to be more selective about
15 changing jobs or moving. For positions such as line workers,⁵ we find that we must more
16 frequently recruit individuals who require relocation. Also, in this type of recruiting
17 environment, we sometimes find it necessary to pay higher compensation for specific
18 positions that are difficult to fill and to cover relocation costs.⁶

19 **Q. How does PGE approach this recruiting challenge?**

20 A. We approach this challenge in three ways:

⁴ Specialties include (1) senior managers in all areas, (2) engineering, (3) IT security, development, and project management, (4) senior professionals working with data, (5) energy trading and pricing, and (6) skilled trade positions such as power plant control operators, meter-service technicians, and line workers.

⁵ Tradesperson who constructs and maintains electric transmission and distribution lines.

⁶ PGE periodically evaluates the market-alignment (i.e., the maintaining of total compensation that is competitive in the market) of its total compensation program both in order to retain employees and to attract external talent.

- 1 1. We focus on developing talent internally wherever reasonably possible, for
2 example, by using cross-training opportunities to temporarily fill some senior
3 level or other hard-to-fill positions. The cross training provides employees an
4 opportunity to work in a different position, and provides management an
5 opportunity to evaluate their potential.
- 6 2. We sometimes find it necessary to externally recruit senior level talent to find
7 individuals with the qualifications and skills required for the position. Recent
8 examples include positions in PGE’s IT and Power Operations. When PGE does
9 recruit senior level talent externally, we may involve external recruiters, and we
10 may be required to pay premium wages and relocation costs for these hard-to-fill
11 positions.
- 12 3. We engage in proactive hiring strategies through job fair and college campus
13 outreach, online tools and research, and database management.

14 In addition, PGE uses an employee referral program to increase the number of qualified
15 applicants for select PGE positions.⁷ This program provides incentives to current PGE
16 employees for referring qualified external candidates. As discussed in PGE Exhibit 500,
17 PGE is also adding Human Resources employees in 2018 and increasing its budget for
18 outside services to assist with the heavy recruitment process.

B. Development

Q. Please describe the second challenge – the development pipeline.

19 A. Ultimately, our challenge of recruiting well-qualified, skilled employees is closely related to
20 our second challenge (i.e., the need to develop and improve talent to help PGE meet
21

⁷ Examples of select PGE positions include journeyman lineman, supervisory control and data acquisition (SCADA) engineers, and IT professionals.

1 customers' needs). This is important because a significant portion of our work force is
2 likely to leave PGE soon. While the average age of PGE's employees has stabilized,
3 approximately one-third of them are retirement eligible. PGE is trying to minimize the
4 knowledge and skill loss that occur when highly-skilled and long-tenured employees retire.

5 **Q. What is PGE's approach to the development challenge?**

6 A. PGE supports employee development through educational assistance, mentoring, and
7 cross-training opportunities. We provide an extensive program of formal and informal
8 training classes to help develop our employees in both subject matter expertise and
9 managerial skills, and provide access to outside training where it is cost-effective. In
10 addition to these programs, PGE uses the following work force planning strategies:

- 11 • Strengthening our summer hire program that helps to develop entry-level
12 engineering, business, and other professional candidates.
- 13 • Strengthening manager capabilities to identify key growth and development areas
14 for their employees and supporting that development.
- 15 • Creating positions that allow high potential employees to rotate through key
16 development roles throughout PGE.
- 17 • Focusing efforts on succession planning, including the identification of tailored
18 methods to recruit candidates with the particular skill sets to fill succession needs.

C. Diverse Workforce

19 **Q. Please describe the third challenge – ensuring a diverse workforce.**

20 A. PGE is committed to employing a workforce that is representative of the communities we
21 serve. A diverse workforce helps PGE recognize and respond more efficiently to the diverse

1 needs of our communities. Diversity and inclusion are one of PGE's Core Values.⁸ PGE
2 believes, and this is borne out by research studies, that employee diversity and inclusion has
3 multiple business benefits, including higher levels of employee engagement, more effective
4 customer engagement, and improved safety performance.⁹ The safety benefits come from
5 employees' feeling a greater sense of inclusion, which encourages them to take more
6 ownership for acting in a safe manner and to speak up when they see something unsafe.

7 PGE's service area grows more diverse each year, and while our workforce diversity has
8 improved, we continue to face challenges in attracting well-qualified and skilled employees
9 who match the demographics of our communities, particularly in senior-level management
10 and the trades.¹⁰ In our efforts to attract a diverse workforce, we experience heightened
11 competition because all industries in our service area are also striving to improve the
12 diversity of their respective workforces.

13 **Q. What is PGE's approach to its diversity challenge?**

14 A. PGE first works to create compelling compensation programs and a work culture that
15 attracts talent across the demographic spectrum. Beyond ensuring competitive
16 compensation design, attracting and retaining a diverse group of employees must be
17 supported by creating an inclusive work environment. Potential and current employees look
18 for concrete visible examples of our continuing commitment to diversity and inclusion. In
19 2017, these examples include:

- 20
 - Sponsored and participated in Oregon Tradeswomen Inc.'s annual career fair to

⁸ PGE's Core Values are: Safety & Health; Continuous Improvement; Ethical Business Practices; Diversity & Inclusion; Community Investment; and Environmental Stewardship.

⁹ A copy of PGE's Business Case for Diversity is included in our work papers.

¹⁰ Trades positions include skilled labor jobs such as lineman and wireman, which require specific and specialized training.

1 bring awareness of trade occupations to women of all ages;

- 2 • Sponsored a professional networking event of over 700 professionals at the
3 Oregon Museum of Science and Industry in conjunction with Partners in
4 Diversity that included the recognition and welcoming of 40 new diverse
5 professionals of color to the greater Portland area;
- 6 • Received a top score of 100% rating on the Human Rights Campaign’s Corporate
7 Equality Index for the fifth consecutive year; and
- 8 • Planning and promotion of the 2018 PGE Diversity Summit Conference,
9 scheduled for May 2018, at the Oregon Convention Center for approximately
10 1,500 attendees. This is the seventh time PGE has sponsored and conducted this
11 regional resource event, which we expect to sell out again. PGE offers this
12 professional development event to the public and private sectors to discuss how
13 diversity drives innovation and business success.

14 PGE has also collaborated with Emerging Leaders Internship (ELI) to expand the
15 diversity pool of our summer hire program and we are placing a greater emphasis and focus
16 on diversity with the Multiple Engineering Cooperative Program (MECOP), the Civil
17 Engineering Cooperative Program (CECOP), and our Pre-Apprentice Program. Internships
18 are one entry point to PGE and by focusing on the diversity of this and similar entry-points,
19 PGE is better able to develop a workforce that is representative of the communities we
20 serve. We found internships to be successful in 2017 and we plan to increase our efforts in
21 targeting positions for internships with ELI in 2018 and 2019.

D. Health Care

1 **Q. Please describe the fourth challenge – health care costs.**

2 A. Health care benefits have traditionally been a key element of the total compensation
3 program PGE uses to attract well-qualified and skilled employees. Health care costs
4 continue to rise faster than overall wages. In response to rising health care costs, PGE has
5 implemented creative health care benefit designs.

6 **Q. What is PGE’s approach to the health care cost challenge?**

7 A. Our changes to health care benefit designs effectively balance cost and risk for both PGE
8 and employees, positioning PGE to attract employees in a cost-effective manner for
9 customers. Recent changes in the health care market have increased the focus on the role of
10 the consumer and behavioral design. Consumerism and behavioral design encourage choice
11 in health care options and more readily allow individuals to make decisions regarding
12 quality and cost of health care in a manner similar to other goods. PGE has embraced these
13 trends by focusing on consumerism in health care insurance plans and improving our
14 wellness offerings. We discuss these changes in more detail in Section V below.

IV. Wages & Salaries

1 **Q. What are the major components of PGE’s total wage and salary costs?**

2 A. Total wages and salaries are comprised of the number of full-time equivalent employees
3 (FTEs) and the market-based pay structure.

A. Full-Time Equivalent Employees

4 **Q. Please describe how PGE determines the first component, the number of FTEs
5 required for the test year.**

6 A. As part of the annual budgeting process, managers determine the number of labor hours in
7 each position type that are expected to be required to accomplish their departments’ work
8 for the coming year. PGE then converts the total labor hours into FTEs by dividing total
9 labor hours by the number of available work hours during the year. For example, an
10 employee hired mid-year would be budgeted as one-half (or 0.5) FTE. For historical
11 periods, FTEs reflect the actual number of hours worked divided by the number of work
12 hours during that year.¹¹ Table 2 and Table 3 provide PGE’s actual total FTEs (excluding
13 overtime) for 2017, FTE budget for 2018, and FTEs forecast for 2019, separated by division
14 and by employee class. Additional detail can be found in PGE Exhibit 401.

Table 2
Full-Time Equivalents by Division

PGE FTEs (straight time)	2017 Actuals	2018 Budget	2019 Test Year*	2017-2019 Delta
Administrative and General (A&G)	372.1	402.9	389.4	17.2
Information Technology	304.3	332.8	306.7	2.4
Customer Service/Accounts	464.5	451.9	455.1	-9.4
Generation	548.7	558.8	562.2	13.5
Transmission & Distribution (T&D)	1,044.9	1,153.0	1,154.1	109.2
Total FTEs**	2,734.6	2,899.4	2,867.5	132.9

**2019 FTEs are net of PGE’s pre-filing adjustments.*

***Numbers may not sum due to rounding.*

¹¹ All hours over 2080 per position, per year are excluded.

Table 3
Full-Time Equivalents by Class

PGE FTEs (straight time)	2017 Actuals	2018 Budget	2019 Test Year*	2017-2019 Delta
Exempt	1,502.9	1,632.4	1,592.7	89.9
Hourly	474.5	469.8	477.5	3.0
Officer	12.3	12.0	12.0	(0.3)
Union	744.9	785.2	785.2	40.3
Total FTEs**	2,734.6	2,899.4	2,867.5	132.9

**2019 FTEs are net of PGE's pre-filing adjustments.*

***Numbers may not sum due to rounding.*

1 **Q. Will PGE require additional employees in 2018 and 2019?**

2 A. Yes. While PGE made significant progress in hiring during 2017, from an FTE perspective,
3 we still require 132.9 additional FTEs, the majority of which we expect to hire in 2018. As
4 discussed below, our increasing FTE requirements occur primarily from 2017 to 2018 and
5 are due to the demands discussed in UE 319.

6 **Q. What areas require these additional FTEs?**

7 A. Table 4 below provides a brief description of the change in FTEs and, where applicable,
8 work these employees will be required to perform, with a reference to a more detailed
9 explanation in PGE's filing.

Table 4
Change in FTEs from 2017-2019

Area	Change in FTEs	Explanation	Reference
A&G	17.2	Security, training, talent acquisition support	Exhibit 500
IT	2.4	Information security	Exhibit 600
Cust Svc/Accts	-9.4	CET reductions	Exhibit 900
Generation	13.5	Resource planning, power supply engineering	Exhibit 700
T&D	109.2	System reliability, increasing customer work	Exhibit 800

10 **Q. What are the primary drivers leading to PGE's projected FTE requirements?**

11 A. The additional FTEs required for 2018 and 2019 are largely driven by the same
12 requirements identified in UE 319. The main drivers continue to be increasing regulatory
13 requirements, new security requirements, increasing customer growth, and capital work that
14 PGE expects to staff with employees, as opposed to contractors. While PGE still faces

1 recruiting and hiring challenges for specialized positions, we expect to fill the majority of
2 our FTE requirements in 2018, consistent with expectations in UE 319.

3 **Q. PGE increased the hiring of FTEs beginning in late 2016 to meet its growing**
4 **requirements. What progress has PGE made?**

5 A. PGE has made significant progress in hiring additional FTEs beyond PGE’s regular turnover
6 and seasonal hiring requirements in spite of a tight labor market that has increased overall
7 turnover at the company and increased competition for skilled trade workers in particular.
8 We have hired, or are in the process of hiring, one-fifth of the 132.9 incremental FTEs
9 previously described. We expect to hire the majority of our remaining incremental need
10 during 2018. Table 5 below, shows PGE’s hiring progression, beginning with 2016 actuals.
11 Table 5 also shows posted requisitions (i.e., employees we plan to hire soon), and a
12 projection of the remaining employees we expect to hire in 2018 and 2019.

Table 5
FTE Hiring Activity

PGE FTEs (straight time)	2016 Actuals	(+) 2017 Incremental FTEs	(+) New hires through Jan. 2018	(+) Requisitions in Process through Jan. 2018	(+) Additional 2018-2019 FTEs	= 2019 Test Year*
A&G	367.3	4.9	3.0	4.5	9.7	389.4
IT	272.4	31.9	-	2.0	0.4	306.7
Customer Service/Accounts	448.2	16.3	-	-	(9.4)	455.1
Generation	535.7	13.0	1.0	2.0	10.5	562.2
T&D	957.7	87.2	2.0	14.0	93.2	1,154.1
Total FTEs	2,581.3	153.3	6.0	20.5	106.4	2,867.5

**2019 FTEs are net of PGE’s pre-filing adjustments, and numbers may not sum due to rounding.*

B. Market-Based Pay Structure

13 **Q. Please describe how PGE determines its market-based pay structure.**

14 A. PGE periodically compares its wages and salaries to the relevant markets. To do this, we
15 collect a wide variety of compensation studies from various organizations and experts.
16 These data are then used to benchmark the salary ranges of various positions against similar

1 PGE positions. PGE performs regression analyses using these data to determine the
2 mid-point for each position classification. In general, actual salaries for each position level
3 must fall within a specific range of PGE's pay structure as determined by these mid-points
4 and the range around the mid-point. However, as described in Section II above, we
5 sometimes find it necessary for PGE to pay premium wages for hard-to-fill positions within
6 the category.

7 Recognizing that each company can be in a different position regarding workforce age
8 and experience, we compare salary range mid-points rather than salaries paid. This provides
9 a more accurate comparison of salary structures. The actual salary level within a range is
10 dependent on several factors, including performance and experience. The consistent use of
11 this practice ensures that our current and prospective employees are fairly compensated
12 while controlling costs.

13 **Q. What has been the recent trend for overall wages and salaries in the marketplace?**

14 A. Wages and salaries nationally and more specifically in Oregon have been rising at a higher
15 rate in 2017 and are forecast to continue increasing at rates higher than we've seen for a
16 number of years. The December 2017 Oregon Economic and Revenue forecast¹² indicates
17 that job openings for higher paying jobs are at all-time highs and that wages (along with
18 other benefits) continue to rise. The December report forecasts the annual increase to the
19 average wage rate for Oregon at 4.5% for 2018 and 4.1% for 2019.

¹² <http://www.oregon.gov/das/OEA/Documents/forecast1217.pdf>.

1 **Q. Have you performed any recent comparisons of PGE’s wage structure with the**
2 **market?**

3 A. Yes. In 2017, we compared our hourly non-union and salaried non-officer positions with
4 the market. Our study showed that PGE’s wage and salary structure was aligned with the
5 market, indicating that PGE’s wage and salary structure was well-designed and
6 market-based. The details of this study are provided in our confidential work papers.

7 **Q. What is PGE’s 2019 test year forecast for wages and salaries?**

8 A. Table 6 below summarizes total wage and salary costs for 2017, 2018, and 2019 by division.

Table 6
Total Wages & Salaries (\$000)

PGE Wages & Salaries (straight time)	2017	2018	2019
	<u>Actuals</u>	<u>Budget*</u>	<u>Test Year*</u>
Administrative and General	\$73,980	\$79,464	\$77,984
Customer Accounts	\$26,678	\$25,548	\$26,881
Customer Service	\$7,240	\$8,309	\$8,609
Generation	\$54,307	\$54,192	\$56,639
Transmission & Distribution	\$98,485	\$107,560	\$111,427
Total Wages & Salaries**	\$260,689	\$275,074	\$281,540

**2018 & 2019 amounts are net of PGE’s pre-filing adjustments.*

***Numbers may not sum due to rounding.*

9 Based on industry and overall labor market data, PGE used a rate of 3.5% to escalate its
10 non-bargaining wages and salaries for 2018 and 4.0% to escalate non-bargaining wages and
11 salaries for 2019. These rates are lower than the above-referenced Oregon average wage
12 forecast of 4.5% for 2018 and 4.1% for 2019. Similarly, for union wages and salaries, PGE
13 applied a rate of 2.5% for 2018 and 3.0% for 2019.

14 **Q. Please identify the bargaining unit contracts in effect with the IBEW Local No. 125**
15 **(IBEW).**

16 A. There are two collective bargaining agreements (CBAs), one for each bargaining unit. The
17 largest bargaining unit (i.e., the majority of PGE’s union employees) covers all union
18 employees at work sites other than Coyote, Port Westward, and Carty. A second bargaining

1 unit covers employees at Coyote, Port Westward, and Carty. We reflect the costs for both
2 active CBAs in our forecast of wages and salaries for the 2019 test year.

3 **Q. Please briefly describe how total compensation, including wages, is determined for**
4 **IBEW employees.**

5 A. Total compensation, including wages, is the result of arm's length,¹³ collective bargaining
6 between PGE and the IBEW. Under collective bargaining, wages, other parts of total
7 compensation, and other conditions are negotiated as a whole (i.e., changes to wages and
8 other parts of compensation are considered alongside other contract provisions like work
9 rules and schedules). Thus, the bargaining agreements in their entirety reflect the negotiated
10 outcomes that both parties support.

11 **Q. Has PGE made any adjustments to its FTEs and wages and salaries for 2019?**

12 A. Yes. To account for vacancies and/or unfilled positions, PGE has included a \$10 million
13 O&M reduction to its base budget wages and salaries forecast. The adjustment for
14 vacancies and/or unfilled positions translates into a 99.9 overall FTE reduction.

C. Labor Budgeting

15 **Q. Is there a different way to budget labor resources?**

16 A. Yes. PGE is deliberating on the way we budget our labor resources. Changes to the utility
17 business model require a more flexible mix of employees. For example, changes in software
18 development strategies may require a change from a large group of lower-wage developers
19 to a smaller group of highly skilled (and highly paid) senior architects. Other areas of the
20 business may, due to talent development needs or changing technology, require a larger
21 number of early career employees rather than smaller number of more highly paid senior

¹³ In an arm's length negotiation, each party is acting independently, and in their own self-interest.

1 employees. What this suggests is that managers should focus on labor costs rather than
2 FTEs to address such issues.

3 **Q. How does focusing on labor dollars, rather than FTEs, improve PGE’s labor**
4 **budgeting?**

5 A. By holding managers to a labor budget irrespective of FTEs, they can focus on hiring the
6 right mix of employees and not be constrained by FTE count. Labor dollar metrics allow
7 managers to change their workforce composition, including skillset mixes and contractor
8 expertise, to respond to changes in technology and competitive requirements. Focusing on
9 labor dollars also allows for improved tracking of labor resources when functional
10 distinctions are blurred (such as the distinction between operational technology and
11 information technology).

12 **Q. Has PGE made any changes to its budgeting process for the 2019 test year?**

13 A. No. We developed our FTE requirements using the process described at the beginning of
14 this section. However, as the utility business model continues to evolve and the pace of
15 change continues to accelerate, we are considering other ways to adapt more quickly to
16 changes and become more flexible in order to ensure we have the right mix of talent. A
17 focus on labor dollar metrics, as opposed to FTEs, is consistent with most other elements of
18 PGE’s regulatory accountability for operating expenses. Similar to non-labor expenses, any
19 proposed increases to customer prices related to labor dollars are subject to scrutiny of
20 output efficiency and justification.

1 **Q. Would any future labor budgeting changes also involve changes to the inputs used in**
2 **determining market reference pay points?**

3 A. No. PGE would continue to use well-established industry and function-based national,
4 regional and local benchmarks to determine market-based pay points for non-bargaining
5 employees.

V. Incentives

1 **Q. What is incentive pay?**

2 A. Incentive pay is part of a competitive total compensation package where high performing
3 employees are rewarded with a larger total annual compensation package based on
4 pre-established performance goals and some additional rewards for extraordinary
5 achievement. Most incentive pay places a portion of employee pay at risk, making it
6 dependent on the employee's performance and quality of output, along with PGE's overall
7 performance. While incentive pay shares characteristics in common with bonuses, most of
8 PGE's incentive pay is different from a bonus because of the "at risk" component.

9 **Q. What is PGE's strategy for incentive compensation?**

10 A. As with wages and salaries, PGE's strategy is to provide incentive pay that attracts, retains,
11 and motivates employees. The incentive goals for all participants stem from PGE's
12 corporate scorecard goals, which support our strategic direction and our commitment to core
13 principles, such as delivering exceptional customer experiences and pursuing excellence in
14 our work.

15 **Q. How does PGE determine the structure and target percentages for incentives?**

16 A. PGE monitors the employment market and acquires information regarding incentive
17 compensation program design practices. Then, consistent with our total compensation
18 program design, PGE's incentive targets are set at the 50th percentile, or middle of the
19 market. Even though it is a small percentage of PGE's total compensation, incentive pay is
20 very important; it assists PGE in attracting and retaining well-qualified and skilled
21 employees and encourages high level employee performance and productivity. High
22 performing employees benefit the company and customers when they are working

1 efficiently and effectively and are engaged in their work. PGE’s incentive programs also
 2 align employee scorecard goals with shared customer and company goals that strive to keep
 3 costs low, improve customer satisfaction, and maintain PGE’s financial stability.

4 **Q. What percentage of PGE’s total compensation are incentives?**

5 A. Incentive pay is approximately 7.5% of PGE’s 2019 total compensation costs. However,
 6 because PGE has made a pre-filing adjustment to our incentives request for this filing, the
 7 amount of incentive pay in our request represents approximately 3.3% of PGE’s 2019 total
 8 compensation. Our pre-filing adjustment removes 100% of the Officer Long-Term
 9 Incentive Program costs and 50% of the cost of all other incentives plans. Table 7 below
 10 summarizes PGE’s actual incentive costs for 2017 and 2018, and our request for 2019. We
 11 discuss the four categories of incentive plans in subsections A through C below.

Table 7
Total Incentives (\$000)

Incentive Plans	2017	2018	2019
	<u>Actuals</u>	<u>Budget</u>	<u>Test Year*</u>
Performance Incentive Compensation	\$12,962	\$14,642	\$7,680
Annual Cash Incentive	\$7,379	\$6,940	\$3,440
Stock (long-term incentive plan)	\$6,668	\$8,322	\$1,572
Notables and Miscellaneous	\$1,215	\$667	\$333
Total Incentives**	\$28,224	\$30,570	\$13,026

** Amounts are net of PGE’s pre-filing adjustments.*

*** Numbers may not sum due to rounding.*

12 **Q. Why did PGE make these adjustments?**

13 A. We made these adjustments to help mitigate the overall size of the rate increase. PGE has
 14 worked diligently to design incentive plans that provide reasonable incentive to attract and
 15 retain qualified individuals, to achieve corporate goals, and to benefit customers. This helps
 16 minimize turnover, increase efficiency, and produces positive financial results; all goals that
 17 directly and positively impact PGE’s costs and value to customers. Although we have made

1 these incentive reductions in this filing, we still believe that all of our incentive costs are
2 prudent and appropriate.

3 **Q. Are PGE's incentive adjustments consistent with adjustments made by PGE in prior**
4 **general rate cases?**

5 A. Yes. Our adjustments are consistent with the adjustments made by PGE in prior general rate
6 cases, including UE 319.

A. Performance Incentive Compensation

7 **Q. What is the Performance Incentive Compensation (PIC) Plan?**

8 A. The PIC Plan is PGE's broad-based incentive program for most non-bargaining employees.
9 The PIC plan rewards eligible employees with cash payments for performance tied to results
10 that support PGE's corporate goals and lead to greater value for customers and stakeholders.

11 **Q. Please explain how the PIC plan creates benefits for customers.**

12 A. PGE's PIC plan creates customer benefit by basing the incentive pool on two goals that
13 provide value to customers:

- 14 • Individual or Team Scorecard Goals: These scorecard goals are designed to
15 stretch performance and promote individual growth and development, while
16 achieving corporate operational goals (e.g., efficiency, meeting or improving
17 operational standards). Strong individual performance is critical in achieving
18 strong company performance, which in turn, leads to greater value for PGE's
19 customers.
- 20 • Financial Performance: Financial strength can reduce customer rates through
21 lower borrowing costs and, thus, a lower cost of capital.

1 Actual award amounts are based on employees' incentive targets and their performance
2 relative to these goals.

B. Annual Cash Incentive

3 **Q. What is the Annual Cash Incentive (ACI) Plan?**

4 A. PGE's ACI Plan is an incentive plan for executives and key non-bargaining employees
5 whose contributions have a strategic and measurable impact on the success of PGE's goals.

6 **Q. Please describe the ACI plan's operational goals and how they align key employee
7 performance measures with customer interests.**

8 A. PGE aligned its ACI plan with customer interests by basing the incentive payouts on PGE's
9 success in achieving four goals described below that deliver value to customers:

- 10 • Customer Satisfaction: This goal measures the overall satisfaction of PGE's retail
11 customer groups using results from: 1) the average quarterly percent rating of the
12 Market Strategies International (MSI) study for residential customers; 2) the
13 average semi-annual percent rating of the MSI study for business customers; and
14 3) the annual results from the TQS Research, Inc. National Utility Benchmark of
15 Service to Large Key Customers. The results of the three measures are weighted
16 based on revenue from each retail customer group, respectively. High customer
17 satisfaction rates are a key indicator that PGE is providing customers high quality
18 service at a reasonable price.
- 19 • Electric Service Power Quality and Reliability: This goal uses annual results of
20 the company's 1) System Average Interruption Duration Index (SAIDI), the
21 average outage duration for each customer served; 2) System Average
22 Interruption Frequency Index (SAIFI), the average number of interruptions that a

1 customer would experience; 3) Momentary Average Interruption Frequency Index
2 (MAIFI), the average number of momentary interruptions that a customer would
3 experience; and 4) Customer Average Interruption Duration Index (CAIDI),
4 which was added in 2018. SAIFI, MAIFI, and CAIDI are weighted at 15% of this
5 goal, while SAIDI is weighted at 55% of this goal. Our customers depend on
6 PGE to deliver and maintain a high level of system reliability.

- 7 • Generation Availability: This goal measures the amount of time that our
8 generating plants are available to produce energy. Plant availability positively
9 influences power costs by ensuring that the lowest cost resources are available for
10 dispatch.¹⁴
- 11 • Financial Performance: This goal measures actual earnings per share (EPS)
12 relative to an EPS target established by our Board of Directors. PGE's financial
13 strength will reduce customer prices through lower borrowing costs and, thus, a
14 lower overall cost of capital. Financial strength also supports PGE's access to
15 capital to support necessary investments that benefit customers.

C. Other Plans

16 **Q. Please describe PGE's long-term stock incentive program.**

17 A. PGE initiated its stock incentive plan in 2006 and it reflects current market practice; many
18 publicly traded companies (including most utilities) provide long-term incentives to promote
19 performance and retention of directors, officers, and key employees. These awards are
20 earned and paid out in three-year cycles. The Public Utility Commission of Oregon (OPUC

¹⁴ PGE Confidential Exhibit 702 provides plant availability statistics.

1 or Commission) approved this stock issuance in Docket No. UF 4226 and summarized the
2 goals of the plan:

3 “The Plan is part of the Company’s overall compensation package
4 and is intended to provide incentives to attract, retain, and
5 motivate officers, directors, and key employees of the
6 Company.”¹⁵

7 PGE’s 2019 forecast for its long-term stock incentive program is \$8.1 million, but our
8 request is approximately \$1.6 million for the 2019 total long-term incentive expense. Our
9 request reflects the removal of the Officer Long-term Incentive Program costs and a 50%
10 reduction for other stock incentives as we have done in past rate cases.

11 **Q. Does PGE have other programs that reward employees’ exceptional performance?**

12 A. Yes. Notable Achievement Awards (Notables) and other miscellaneous awards are given to
13 employees on a case-by-case basis for exceptional performance. Notables are distributed to
14 recognize employees’ outstanding work on a specific project or task. PGE’s 2019 forecast
15 for Notables is approximately \$0.7 million, but our request is approximately \$0.3 million,
16 reflecting a 50% reduction.

17 At times, and in specific situations, we have also employed other types of incentives,
18 such as signing bonuses and retention payments, to obtain difficult-to-locate talent, in
19 periods of critical skill competition, to motivate the completion of important tasks, or to hold
20 employees in cases of future layoffs (e.g., Trojan decommissioning). However, these types
21 of incentives are not included in the 2019 test year.

22 **Q. Has PGE included any incentive costs for employees at the Boardman Plant?**

23 A. No. As discussed in Docket No. UE 294, beginning in 2016, PGE removed all
24 Boardman-related incentive costs from base rates. Beginning in 2016, employees working

¹⁵ OPUC Order No. 06-356, p.1.

- 1 at the Boardman Plant are eligible only for the Boardman Retention/Reliability Plan, with
- 2 costs recovered separately through Schedule 145.

VI. Benefits

1 **Q. What is PGE's benefit compensation strategy?**

2 A. PGE strives to maintain a benefits package that meets our employees' needs and balances
3 the features and costs both among employee groups and against what other employers in our
4 market provide to their employees. As with the other two compensation components
5 (wages/salaries and incentives), PGE compares our benefits programs to the relevant market
6 attributes. PGE also uses market information to create innovative program designs to
7 provide greater employee choice and improve our ability to control costs. As a result, we
8 believe that our total compensation package as filed is sufficient to attract and retain
9 well-qualified and skilled employees and is reasonable for customers.

10 **Q. Please describe the components of PGE's total benefits.**

11 A. There are four major components: 1) health and wellness, 2) disability and life insurance,
12 3) post-retirement, and 4) miscellaneous benefits. These components are also typical parts
13 of our competitors' offerings. As shown in Table 8 below, we project 2019 employee
14 benefit costs of approximately \$100.5 million. PGE's total benefit costs are expected to
15 increase \$18.2 million from 2017 to 2019. However, approximately \$14.2 million of that
16 increase is due to medical and dental costs increases exceeding inflation and higher FTE
17 requirements from 2017 to 2018 (as supported in UE 319). At the same time, PGE's total
18 benefit costs are expected to increase \$4.0 million from 2018 to 2019 mostly due to
19 inflation, which is partially offset by FTE decreases. The drivers of this increase, and PGE's
20 efforts to benchmark its benefit costs, are discussed in more detail below.

Table 8
Total Benefits (\$000)

<u>Benefits Compensation Component</u>	<u>2017</u> <u>Actuals</u>	<u>2018</u> <u>Budget</u>	<u>2019</u> <u>Test Year</u>
Health and Wellness	\$41,040	\$50,948	\$53,836
Disability and Life Insurance	\$2,836	\$4,051	\$4,237
Post-Retirement	\$37,197	\$39,144	\$40,008
Miscellaneous Benefits	\$648	\$1,355	\$1,406
Benefits Administration	\$597	\$1,004	\$1,031
Total Benefits*	\$82,318	\$96,502	\$100,519

** Numbers may not sum due to rounding.*

1 **Q. Does PGE use a benefits benchmark to measure and compare overall benefit costs?**

2 A. Yes. PGE participates in the Willis Towers Watson Energy Services BENCAL Study, a
3 biennial comparison of benefit values (all open health and dental, post retirement, disability,
4 and life insurance plans) among peer utilities with similar revenues. BENCAL provides a
5 complete competitive analysis of the value of a benefit program, including a comparison of a
6 company’s benefits plans against those of peer companies. Peer companies are those
7 companies in similar industries with similar revenue sizes. The tools a company can use to
8 affect medical costs are extremely diverse; BENCAL gathers all the relevant information
9 related to a company’s health care and other benefits plan offerings in order to accurately
10 benchmark them against other peer groups. BENCAL is a leading benefits benchmark study
11 used by utilities and other large industries to evaluate the cost of their benefits plans.

12 **Q. Where does BENCAL place PGE in its medical and other benefit costs?**

13 A. According to the 2017 BENCAL study, PGE’s employer-paid non-bargaining medical costs
14 along with PGE’s entire benefit program were higher than the average of its peers.
15 However, this higher than average result is partially offset by PGE’s decision to include a
16 3.5% escalation rate in the budget for 2018 non-exempt wages and salaries, instead of the
17 4.5% rate forecast in 2018 by the Oregon Office of Economic Analysis. These survey

1 results are provided as confidential PGE Exhibit 402C. Since the BENVAl study is a
2 biennial survey, PGE will participate in this survey again in 2019. Based on past
3 experience, we anticipate receiving survey results by the end of the second quarter in 2019.

4 **Q. Please describe PGE’s peer group in the BENVAl study.**

5 A. In general terms, PGE’s peer group includes 14 regulated utilities with annual revenue
6 ranging from \$1 billion to \$3 billion. These peer utilities derive the majority of their
7 revenue from the electric business. The peer group includes utilities across the U.S., with a
8 balanced representation across the western and eastern regions.

9 **Q. Please explain why Health and Wellness costs are forecasted to increase approximately**
10 **\$12.8 million from 2017 to 2019.**

11 A. As supported in UE 319, the increase is primarily attributable to higher FTEs requirements,
12 as well as increases in medical and dental rates from benefit providers. While PGE works
13 hard to keep its medical and dental costs down, these costs are also driven by national trends
14 and are not something that PGE can fully control. At a national and regional level, increases
15 in medical and dental costs continue to outpace inflation. According to a June 2017
16 PricewaterhouseCoopers report,¹⁶ the projected growth rate for medical costs is forecasted to
17 be approximately 6.5% nationally. This compares to PGE’s forecasted average annual
18 increase of approximately 7.0% from 2017 actuals to the 2019 forecast.

19 PGE’s benefits consultant, Mercer, provides PGE’s forecasted rate increases for the 2019
20 forecast. Mercer uses national and regional trending data paired with PGE’s employee
21 demographics and usage trends in order to calculate a customized forecasted rate increase.

¹⁶ See PGE’s non-confidential work papers. Also available at <http://www.pwc.com/us/en/health-industries/health-research-institute/behind-the-numbers.html>.

1 Health care plan offerings and cost sharing for the main bargaining unit are a negotiated
2 benefit and managed by a Taft-Hartley Trust.¹⁷ We forecast that bargaining employee
3 medical and dental plan premium costs will increase by approximately 7.0% in 2018 and
4 7.0% in 2019. Our forecast is based on a semi-annual survey of local insurance companies'
5 annual claims cost trends performed by Mercer and actual employee experience in 2015 and
6 2016.

7 **Q. What strategy is PGE employing to help slow the increase of its health care costs?**

8 A. PGE's strategy is to align the features and costs of programs with the market and increase
9 focus on employee wellness to control health care costs. We use various tools to execute
10 our strategy. The largest tool PGE currently has at its disposal to help control future health
11 care costs for both the company and employees is the transition from traditional medical
12 plans to Health Savings Account-qualified (i.e., HSA-qualified) medical plans. In 2016,
13 PGE began a three-year transition to HSA-qualified medical plans.¹⁸

14 For 2018 and beyond, PGE is offering only HSA-qualified plans to non-bargaining
15 employees, and is offering the option to union employees. To help ease the transition, PGE
16 has shifted some of the funds used for paying employee premiums in traditional plans to
17 funding a beginning balance in employees' HSAs.

18 **Q. Please briefly describe the differences between traditional medical plans
19 and HSA-qualified medical plans.**

20 A. Relative to traditional medical plans, HSA-qualified medical plans are designed with higher
21 deductibles and higher maximum out-of-pocket limits. The HSA-qualified medical plan

¹⁷ Health care plan offerings and cost sharing for union employees at Coyote, Port Westward and Carty are the same as those offered to non-bargaining employees.

¹⁸ HSA-qualified plans are sometimes called high deductible plans.

1 design encourages wise use of health care services, because employees are responsible for
2 100% of service costs up to the medical plan's deductible, except for preventive care which
3 is covered. The HSA-qualified medical plans also place a greater focus on overall wellness.

4 **Q. Why does PGE include wellness programs as one of its total benefits components?**

5 A. PGE offers wellness programs to provide early detection of risk factors, intervention and
6 management of health issues. These programs promote healthier lifestyles, which contribute
7 to lower medical premiums, increased morale, attendance, and productivity. Some of the
8 services provided through these health programs include biometric testing, health risk
9 appraisals, professional health coaching, obesity management, wellness reimbursements and
10 disease prevention. Also included are occupational health services, which provide flu shots,
11 health screening, and case management.

12 **Q. Has PGE's transition to HSA-qualified medical plans led to an increase in PGE's
13 employer paid per capita medical costs?**

14 A. No. Confidential PGE Exhibit 403C provides our 2016 to 2019 projections of the Per
15 Capita Employer Medical Contribution with and without the transition to the HSA-qualified
16 medical plans. Without the shift to HSA plans that we started in 2016, medical costs per
17 capita would have been higher than what we currently forecast.

18 **Q. Previously you discussed the negotiation of the collective bargaining agreement for
19 union employees at all sites other than Coyote, Port Westward and Carty. Were there
20 any material changes to benefits in the terms of the CBA?**

21 A. Yes. The Union agreed to include an HSA-qualified medical plan in the benefits offered to
22 union employees. Benefit plans are an important component of the overall labor contract
23 between the Union and PGE. While union employees will also have the choice of a

1 traditional medical plan, rising health care costs were a concern during the negotiations and
2 it was generally agreed that offering an HSA-qualified plan would be beneficial to
3 bargaining employees and PGE.

4 **Q. Please explain how PGE forecast its disability and life insurance benefit for 2019.**

5 A. PGE's disability and life insurance benefits are comprised of union short-term disability
6 (STD) insurance, long-term disability insurance, and retiree group life insurance for all
7 employees.

8 PGE forecasts STD insurance costs of approximately \$0.7 million in 2019. This
9 represents a \$0.1 million increase from 2017 and is the result of union wage increases for
10 2017 and 2018 coupled with incremental union FTEs.

11 PGE forecasts long-term disability medical costs for union and non-union employees to
12 be approximately \$2.3 million in 2019. PGE uses a forecast by Willis Towers Watson, a
13 third party actuary, to estimate these expenses. Actual long-term disability costs fluctuate
14 from year-to-year, sometimes significantly. The actuarial forecasts are driven by factors
15 such as the discount rate, health care trend assumptions, number of participants, and
16 demographics of the participant population. The expense in a given year is calculated as the
17 difference between beginning and ending liabilities, plus the benefits actually paid by PGE
18 in that year.

19 PGE forecasts retiree group life insurance costs to be approximately \$1.3 million in 2019.
20 For union and non-union retirees, PGE pays for a basic level of coverage for life insurance.
21 Active union and non-union members otherwise pay for their own life insurance.

1 **Q. What is included in PGE’s Post-Retirement benefits costs?**

2 A. PGE classifies its 401(k) plan and the PGE Pension Plan as post-retirement benefits. For
3 purposes of this testimony, we also present the Health Reimbursement Account (HRA) as a
4 post-retirement benefit.¹⁹

5 **Q. Why are post-retirement benefits important?**

6 A. Post-retirement benefits support employee recruitment and are an effective way to retain
7 talent. Providing strong post-retirement benefits is a great way to enhance the total
8 compensation package to attract well-qualified, skilled employees in the current competitive
9 marketplace.

10 **Q. What is PGE’s 401(k) forecast for 2019?**

11 A. PGE’s 401(k) costs are based on employee contributions and PGE’s match, up to plan
12 maximums, and include an employer contribution for union employees and non-union
13 employees hired after February 1, 2009. These costs change with base wage and salary
14 levels and employee participation. From 2017 to 2019, costs associated with the 401(k) are
15 expected to increase from \$20.7 million to \$23.3 million.

16 **Q. What is PGE’s HRA forecast for 2019?**

17 A. PGE’s HRA provides a post-retirement benefit to cover a portion of health care expenses
18 and premiums for employees who retire from PGE. For non-bargaining employees, only
19 those who retire from PGE will receive any HRA benefit. For these employees, PGE places
20 funds into a notional account for retiree HRA benefits. Additional union HRA costs relate
21 to the accumulation of notional hours for current employees and retirees receiving current
22 HRA benefits. Total HRA costs for 2019 are expected to be approximately \$2.3 million.

¹⁹ To comply with ERISA accounting guidelines, PGE classifies the HRA as a health and wellness benefit, even though employees do not receive the benefit until after retiring from PGE.

1 **Q. What is PGE’s pension cost forecast for 2019?**

2 A. PGE’s 2019 pension cost is forecasted to be \$21.5 million (or approximately \$14.5 million
3 after capitalization). PGE’s 2019 total pension expense is slightly lower compared to 2017.
4 PGE’s pension cost forecast does not include the changes required by the Financial
5 Accounting Standards Board (FASB) Accounting Standards Update (ASU) titled,
6 *Compensation – Retirement Benefits [Topic 715]: Improving the Presentation of Net*
7 *Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*). In March 2017,
8 FASB issued the ASU update No. 2017-07 and proposed the ASU would take effect
9 January 1, 2018.

10 The amendments in the ASU will allow only the service cost component of pension costs
11 to be eligible for capitalization. However, per the stipulation in UE 319, PGE is capitalizing
12 pension and post-retirement plans in a manner consistent with PGE's method prior to the
13 issuance of FASB ASU 2017-07.

14 **Q. How is pension expense calculated?**

15 A. Pension expense, more commonly known as “FAS 87 net periodic benefit cost,”²⁰ represents
16 the cost of maintaining an employer’s plan, and is reported on the company’s income
17 statement. Pension expense consists of the following components: service cost, interest cost,
18 expected return on assets, amortization of prior service cost, and amortization of net gains or
19 losses. As part of its pension expense determination, PGE must identify an expected
20 long-term rate of return and a discount rate.

²⁰ PGE records its pension expense based on Accounting Standards Codification (ASC) 715, “Compensation – Retirement Benefits,” which prior to July 1, 2009, was known as Statement of Financial Accounting Standards No. 87 or “FAS 87.”

1 **Q. What assumption does PGE use for its expected long-term rate of return?**

2 A. Based on the pension plan’s asset allocation, the pension investment portfolio is expected to
3 yield a long-term rate of return of 7.0%. This estimate is developed based on a distribution
4 of long-term expected return information provided by Mercer Investment Management
5 Company.

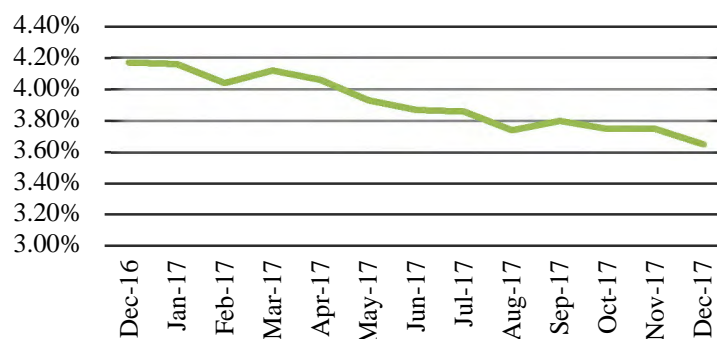
6 **Q. What assumption does PGE use for its discount rate?**

7 A. PGE uses a discount rate of 3.64%, which is an average of the interest rates of a group of
8 long-term high quality AA-rated bonds. The discount rate is provided by Willis Towers
9 Watson, and the methodology is determined in accordance with Generally Accepted
10 Accounting Principles.

11 **Q. Will the discount rate change if the current interest rate environment changes?**

12 A. Yes. Interest rates are subject to uncertainty as the economic and political environment
13 continues to develop. Figure 1 shows the change in discount rates since December 2016.
14 Discount rates have declined year-over-year, and continue to be at historic lows.

Figure 1
Discount Rates (December 2016 – December 2017)



1 **Q. Does PGE have a proposal for managing the uncertainty in the discount rate**
2 **assumption during this rate case?**

3 A. Yes. PGE will continue to monitor discount rates during the course of this proceeding, and
4 we propose submitting a final discount rate assumption for the 2019 test year pension cost
5 no later than September, 2018 using the same methodology. This proposal allows PGE, and
6 parties, to monitor the interest rate environment throughout the rate case and establish a
7 discount rate assumption that benefits from a greater understanding of more current market
8 conditions.

9 **Q. Please discuss the current state of PGE's pension plan.**

10 A. Overall, the funded status of PGE's pension plan continues to be slightly above 70%. With
11 discount rates remaining at a historically low level and continuing to fall, the nominal
12 growth of PGE's pension liabilities is currently outpacing the growth of pension plan assets,
13 even with the exceptional growth in 2017. In other words, while PGE has experienced
14 above average plan returns,²¹ they are still not enough to cover the growth of future expected
15 liabilities. Further compounding this issue is the increase in Pension Benefit Guaranty
16 Corporation (PBGC) premiums,²² which has put additional upward pressure on pension
17 expense.

18 **Q. How is PGE addressing these issues?**

19 A. PGE looks at strategies to improve the funded status of the plan and reduce the risk
20 associated with both PBGC premium increases and discount rate fluctuations. We expect to
21 make significant required cash contributions into the plan over the coming years and we

²¹ PGE's pension plan total fund performance ranked in the top decile among similar sized pension plans for the last three years ending September 30, 2017.

²² The PBGC per participant fee has increased 138% in the last 10 years while the variable rate has increased 332% in the same time period. Rates will continue to rise year after year since the rates are indexed for wage inflation.

1 continue to follow an investment strategy that actively maximizes the risk-adjusted returns
2 of plan assets. We do not currently expect that our required cash contributions will
3 significantly increase the funded status of our pension plan or significantly reduce FAS 87
4 expense over the short-term. However, PGE actively reviews liability management
5 strategies for available options to prudently increase our funded status, reduce plan risk, and
6 reduce our overall plan expense and we plan to keep OPUC Staff informed of any potential
7 liability management strategies, should sensible opportunities arise.

8 **Q. Please explain PGE's forecast cost for miscellaneous employee benefits.**

9 A. Miscellaneous benefits are additional, low-cost tools that PGE uses to attract, retain, and
10 develop well-qualified, skilled employees. We expect to spend approximately \$1.4 million
11 in 2019. Although small in dollars, these tools help balance employer provided benefits
12 with the changing realities of our demographics and position in the marketplace for
13 employees. Examples of PGE's miscellaneous benefits include educational assistance,
14 service awards, and a public mass transit benefit.

- 15 • Education Assistance: \$0.5 million – This program reimburses employees for
16 education that enhances learning and development. It can be applied to classes
17 that lead to a certification or undergraduate/graduate degree as well as classes that
18 enhance technical knowledge. This program increases PGE's number of qualified
19 employees available to fill open positions. Sponsoring career development is also
20 a prime recruiting tool and source of employee motivation and satisfaction, which
21 also aids retention. This program is also useful to PGE's efforts to strengthen the
22 technical skillset and versatility of its employees.

- 1 • Service Awards: \$0.2 million – As a retention and morale strategy, PGE honors
2 employees for their years of service at five-year anniversary intervals, consistent
3 with industry practice.
- 4 • Public Mass Transit Benefit: \$0.6 million – PGE and the City of Portland, among
5 other companies and institutions, continue to encourage alternatives to personal
6 vehicle transit and as a tool for recruitment and retention strategy. PGE began
7 offering a public mass transit benefit on January 1, 2018. This benefit is designed
8 to ease transit barriers for individuals, particularly those who see the cost (or
9 limited availability) of parking as an obstacle to working in downtown Portland
10 and other PGE locations serviced by Tri-Met. Incenting travel via public mass
11 transit into Portland also improves our ability to build a diverse workforce,
12 because it makes downtown Portland a more accessible destination.

13 **Q. What is PGE’s 2019 cost for benefits administration?**

- 14 A. PGE forecasts 2019 benefits administration costs to be approximately \$1.0 million, which is
15 consistent with costs included in UE 319.

VII. Summary and Qualifications

1 **Q. Please summarize your testimony.**

2 A. PGE must provide a total compensation package sufficient to attract and retain the well-
3 qualified and skilled employees PGE needs to operate its business effectively and
4 efficiently, and to encourage performance beneficial to PGE and our customers. To do this,
5 PGE designs its total compensation program with reference to the labor markets in which we
6 compete. This approach provides a total compensation structure, comprised of wages and
7 salaries, incentives, and benefits, that as proposed will be competitive and cost effective.

8 **Q. Ms. Mersereau, please summarize your qualifications.**

9 A. I received a Bachelor of Arts degree in Business Administration: Human Resources and
10 Management with a minor in Economics from Washington State University. I also hold a
11 Senior Professional in Human Resources (SPHR) designation. My professional Human
12 Resources career spans nearly thirty years and includes various roles at PGE for the last nine
13 years, as well as positions with Hilton Hotels Corporation, Marsh USA Inc., and Waldron
14 Consulting. I joined PGE's Human Resource (HR) organization in 2009. I've served
15 employees in Line Operations as well as T&D engineers, Substation Operations, Service &
16 Design, and Public Policy employees. In 2014, I became the Employee Services Manager,
17 where I led HR Operations including HR Systems Reporting & Analytics, Payroll, Service
18 Center, Health Services, and other areas. I became Vice President of HR, Diversity &
19 Inclusion in 2016. In this position, I am responsible for safety, talent acquisition and
20 management, employee engagement, change management, total rewards, health and
21 wellness, diversity and inclusion, and corporate project management.

1 I'm an active member of the community with a passion for education and workforce
2 development. In 2017, I was appointed by Oregon Gov. Kate Brown to the Oregon
3 Workforce Investment Board. I also serve as Vice Chair for Impact NW and the board of
4 Dress for Success Oregon, and I'm a member of the Partners in Diversity Leadership
5 Council.

6 **Q. Ms. Neitzke, please summarize your qualifications.**

7 A. I received a Bachelor of Science degree in Business Administration with an emphasis in
8 Finance and a Post Baccalaureate degree in Accounting from Portland State University. I
9 am a Certified Public Accountant. Prior to joining PGE in 2007, I worked at KPMG where I
10 served in various publicly held companies as an external auditor over the course of ten
11 years. I joined PGE in 2007 and have held various finance related management roles
12 including financial reporting, treasury, corporate planning and supply chain. I became the
13 Director of Compensation and Benefits in early 2017.

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

15 A. Yes.

VIII. List of Exhibits

<u>PGE Exhibit</u>	<u>Description</u>
401	PGE FTEs - 2015 Actuals through 2019 Test Year Forecast
402C	2017 BENVAl Ranking – Entire Benefit Program
403C	2015-2019 Per Capita Employer Medical Contribution

PGE FTEs - 2015 Actuals through 2019 Test Year Forecast

DIVISION	2015 FTE (PGE Share)	2016 FTE (PGE Share)	2017 FTE (PGE Share)	2018 BUD FTE (PGE Share)	2019 GRC FTE (PGE Share)	FTE Delta 2017 -2019	Annual % Delta 2017 -2019
A&G - INFORMATION TECHNOLOGY Total	234.8	272.4	304.3	341.7	321.2	16.8	2.7%
ADMINISTRATIVE AND GENERAL Total	370.5	367.3	372.1	413.6	413.9	41.7	5.5%
CUSTOMER ACCOUNTS Total	379.6	382.7	400.0	410.4	384.5	(15.4)	-1.9%
CUSTOMER SERVICE Total	87.8	85.7	85.4	95.8	95.7	10.3	5.9%
GENERATING - BEAVER Total	50.2	48.9	47.1	48.5	48.5	1.5	1.6%
GENERATING - BIGLOW Total	7.4	8.1	8.6	9.0	9.0	0.4	2.5%
GENERATING - BOARDMAN Total	98.9	88.3	84.2	87.9	87.9	3.6	2.1%
GENERATING - CARTY Total	8.6	21.0	21.3	22.7	22.9	1.6	3.8%
GENERATING - COYOTE Total	17.1	17.0	17.6	17.9	17.9	0.3	0.9%
GENERATING - OTHER Total	302.3	309.7	326.1	348.8	348.2	22.2	3.3%
GENERATING - PORT WESTWARD Total	25.3	25.8	26.9	29.6	29.6	2.7	5.0%
GENERATING - TROJAN Total	12.1	11.9	12.6	16.9	16.9	4.3	15.7%
GENERATING - TUCANNON Total	4.4	5.0	4.5	5.0	5.0	0.5	5.5%
TRANSMISSION & DISTRIBUTION Total	922.5	957.7	1,044.9	1,184.6	1,184.6	139.6	6.5%
Grand Total	2,521.4	2,601.4	2,755.5	3,032.2	2,985.8	230.3	4.1%

Adjusted Totals by Division

IT	234.8	272.4	304.3	341.7	321.2	16.8	2.7%
Unfilled Position Adjustment				(8.9)	(14.4)	(14.4)	
Adjusted IT Totals	234.8	272.4	304.3	332.8	306.7	2.4	0.4%
A&G	370.5	367.3	372.1	413.6	413.9	41.7	5.5%
Unfilled Position Adjustment				(10.7)	(24.5)	(24.5)	
Adjusted A&G Totals	370.5	367.3	372.1	402.9	389.4	17.2	2.3%
Adjusted A&G/IT Totals	605.3	639.7	676.5	735.7	696.1	19.6	1.4%
Customer Accounts	379.6	382.7	400.0	410.4	384.5	(15.4)	-1.9%

DIVISION	2015 FTE (PGE Share)	2016 FTE (PGE Share)	2017 FTE (PGE Share)	2018 BUD FTE (PGE Share)	2019 GRC FTE (PGE Share)	FTE Delta 2017 -2019	Annual % Delta 2017 -2019
Unfilled Position Adjustment				(33.7)	(4.6)	(4.6)	
Adjusted Customer Accounts Totals	379.6	382.7	400.0	376.7	380.0	(20.0)	-2.5%
Customer Service	87.8	85.7	85.4	95.8	95.7	10.3	5.9%
Incremental FTEs offset by Other Revenue	(19.7)	(20.1)	(20.9)	(20.6)	(20.6)	0.3	-0.8%
Adjusted Customer Service Totals	68.0	65.6	64.5	75.2	75.1	10.6	7.9%
Adjusted Customer Accounting/Service Total	447.6	448.2	464.5	451.9	455.1	(9.4)	-1.0%
Generation	526.3	535.7	548.7	586.1	585.9	37.2	3.3%
Unfilled Position Adjustment				(27.4)	(23.7)	(23.7)	
Adjusted Generation Total	526.3	535.7	548.7	558.8	562.2	13.5	1.2%
T&D	922.5	957.7	1,044.9	1,184.6	1,184.6	139.6	6.5%
Unfilled Position Adjustment				(31.5)	(30.5)	(30.5)	
Adjusted T&D Totals	922.5	957.7	1,044.9	1,153.0	1,154.1	109.2	5.1%
Unadjusted Total	2,521.4	2,601.4	2,755.5	3,032.2	2,985.8	230.3	4.1%
Unfilled Position Adjustment	-	-	-	(112.2)	(97.7)	(97.7)	
Incremental FTEs not in prices	(19.7)	(20.1)	(20.9)	(20.6)	(20.6)	0.3	
Adjusted Grand Total	2,501.7	2,581.3	2,734.6	2,899.4	2,867.5	132.9	2.4%
Match	-	-	-	-	-	0.0	

Exhibit 402C

Protected Information Subject to Protective Order 18-047

Exhibit 403C

Protected Information Subject to Protective Order 18-047